AR90

RENEWAL ANNUAL INFORMATION FORM

FOR THE YEAR ENDED

DECEMBER 31, 2007

March 4, 2008

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GLOSSARY OF TERMS

In this Annual Information Form, the following words and phrases have the meanings set forth below, unless the context otherwise requires:

"AIF" means the Annual Information Form of the Company dated March 4, 2008;

"CBM" means coalbed methane;

"COGE Handbook" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum;

"Common Share" means a common share in the capital of the Company;

"Cordero" or **"the Company"** or **"the Corporation"** means Cordero Energy Inc., a corporation incorporated under the laws of the Province of Alberta;

"crude oil" or **"oil"** means a mixture, consisting mainly of pentanes and heavier hydrocarbons that may contain sulphur compounds, that is liquid at the conditions under which its volume is measured or estimated, but excluding such liquids obtained from the processing of natural gas;

"gross acres" means the total number of acres in which the Company has an interest;

"natural gas" means the lighter hydrocarbons and associated non-hydrocarbon substances occurring naturally in an underground reservoir, which under atmospheric conditions is essentially a gas, but which may contain liquids. Natural gas reserve estimates are reported on a marketable basis, that is gas which is available to a transmission line after removal of certain hydrocarbons and non-hydrocarbon compounds present in the raw natural gas and which meets specifications for use as a domestic, commercial or industrial fuel;

"natural gas liquids " or **"NGLs"** mean those hydrocarbon components recovered from raw natural gas as liquids by processing through extraction plants or recovered from field separators, scrubbers or other gathering facilities. These liquids include the hydrocarbon components ethane, propane, butanes and pentanes plus, or a combination thereof;

"net acres" means gross acres multiplied by the Company's percentage working interest therein;

"Sproule" means Sproule Associates Limited;

"Sproule Report" means the report of Sproule dated February 8, 2008, evaluating the petroleum and natural gas reserves of the Corporation as at December 31, 2007; and

"working interest" means the net interest held by the Company in an oil and natural gas property which normally earns its proportionate share of the production and bears its proportionate share of the costs of exploration, development and operation as well as any royalties or other production burdens.

All dollar amounts set forth in this AIF are in Canadian dollars, except where otherwise indicated.

ABBREVIATIONS

The following abbreviations are used in this AIF to represent the following terms:

"API" means the American Petroleum Institute;

"API gravity" means the method of expressing the specific gravity of crude oil in degrees;

"bbl" means barrel; **"bbls"** means barrels; and **"bbl/d"** means barrels per day;

"Bcf" means billion cubic feet;

"boe" means barrels of oil equivalent, with natural gas converted at 6 Mcf per barrel of oil (6:1) unless otherwise stated;

"boe/d" means barrels of oil equivalent per day;

"Mbbl" means thousands of barrels;

"Mboe" means thousands of barrels of oil equivalent;

"MMboe" means millions of barrels of oil equivalent;

"Mcf" means thousand cubic feet; and **"Mcf/d"** means thousand cubic feet per day;

"MMbtu" means million British thermal units;

"MMcf" means million cubic feet; and **"MMcf/d"** means million cubic feet per day;

"NGL" means natural gas liquids; and

"WTI" means West Texas Intermediate crude oil delivered at Cushing, Oklahoma.

ADVISORY

In the interests of providing Cordero shareholders and potential investors with information regarding Cordero, including management's assessment of Cordero's future plans and operations, certain disclosures contained in this document are forward-looking. Forward-looking statements include, but are not limited to: Cordero's internal projections; expectations or beliefs concerning future operating results and various components thereof; the production and growth potential of its various assets; estimated total production and production growth for 2008 and beyond; the sources, deployment and allocation of expected capital in 2008 and beyond; the success of future development drilling prospects; business prospects and strategies of the Company; and anticipated financial performance. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend" or similar words suggesting future outcomes or statements regarding an outlook on, without limitation, commodity prices, estimates of future production, the estimated amounts and timing of capital expenditures, anticipated future debt levels and royalty rates, or other expectations, beliefs, plans, objectives, assumptions or statements about future events or performance. The forward-looking statements contained herein are as of March 4, 2008, are subject to change after this date and do not contemplate the effects of the offer from ENMAX Corporation as disclosed in the press release dated February 19, 2008.

Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information of the Company involves numerous assumptions, inherent risks and uncertainties both general and specific that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. These factors include, but are not limited to: the availability and price of energy commodities; the effects of competition and pricing pressures; risks and uncertainties involving the geology of crude oil and natural gas; operational risks in exploring for, developing and producing crude oil and natural gas; the uncertainty of estimates and projections relating to production, costs and expenses; shifts in market demands; risks inherent in the Company's marketing operations; industry overcapacity; the strength of the Canadian economy in general; currency and interest rate fluctuations; general global, economic and business conditions; changes in business strategies; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserves estimates; various events which could disrupt operations, including severe weather conditions, technological changes, and the Company's anticipation of and success in managing the above risks; potential increases in maintenance expenditures; changes in laws and regulations, including trade, product transportation, fiscal, environmental and regulatory laws; and health, safety and environmental risks may affect projected reserves and resources and anticipated earnings or assets. Statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future. For further information see "Industry Conditions and Risk Factors".

The Company cautions that the foregoing list of important factors is not exhaustive. The Company undertakes no obligation to update publicly or revise the forward-looking information provided in this document, whether as a result of new information, future events or otherwise, or the foregoing list of factors affecting this information, except as required by applicable securities laws.

Production information is commonly reported in units of barrel of oil (boe) equivalent which may be misleading, particularly if used in isolation. For purposes of computing such units, barrel of oil equivalent amounts have been calculated using an energy equivalence conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6:1). The conversion ratio of 6:1 is based on an energy equivalency conversion method, which is primarily applicable at the burner tip. It does not represent equivalent wellhead value for the individual products.

In regards to finding, development and acquisition (FD&A) costs, the aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in the estimated future development costs generally will not reflect FD&A costs related to reserve additions for that year.

CORDERO ENERGY INC.

Cordero is a junior oil and gas company pursuing oil and natural gas production and reserve growth through the development of its coalbed methane and Belly River sand assets in central Alberta and conventional exploration in Alberta and British Columbia.

Cordero is based in Calgary, Alberta and was incorporated on March 30, 2005 under the Business Corporations Act (Alberta). The Corporation commenced operations on April 30, 2005 when certain oil and gas properties were transferred to Cordero in exchange for common shares of the Corporation under a plan of arrangement involving Resolute Energy Inc. (Resolute) and Esprit Energy Trust.

Cordero's head and registered office is located at 2400 Bow Valley Square 3, 255-5th Avenue SW, Calgary, Alberta, T2P 3G6.

General Information

The Corporation has one wholly owned subsidiary, Cordero Finance Corp, a presently inactive company incorporated under the laws of the Province of Alberta on March 30, 2005.

As at December 31, 2007 the Corporation had 20 employees, all situated in Calgary, Alberta.

History

Cordero was formed through a plan of arrangement that closed on April 29, 2005. In exchange for the oil and gas properties transferred from Resolute, former Resolute shareholders received a total of 20,347,222 common shares of Cordero, as well as the same number of arrangement warrants, of which most were exercised for 1,861,190 common shares.

On April 29, 2005 the Corporation issued 1,916,376 common shares and the same number of performance warrants in conjunction with an initial private placement to employees, officers and directors for total gross proceeds of $5.5 million. Also issued to participants in this private placement were 725,900 performance shares. For more information regarding the terms and conditions attached to the Cordero Shares, Warrants and Performance Shares, see "Description of Share Capital".

On April 30, 2005, pursuant to the plan of arrangement, Cordero acquired certain oil and gas properties from Resolute, including 27,400 net acres in Malmo and 68,300 net acres of undeveloped land in Alberta and British Columbia. Approximately one-half of the Malmo acreage was developed and production from the area at the time was 683 boe/d.

General Development of the Business

On June 6, 2005 the Company closed a bought-deal share issuance whereby 3.0 million common shares were issued at a price of $4.65 per share for total gross proceeds of $13.95 million.

On November 29, 2005 Cordero issued 2.6 million common shares on a bought-deal basis at an issue price of $5.80 per share for total gross proceeds of $15.1 million.

On June 2, 2006 a bought-deal equity offering was completed whereby 2.75 million common shares were issued at $7.25/share for total gross proceeds of $19.9 million.

On November 9, 2006 Company closed a flow-through common share issuance for 1.2 million shares at $8.80/share for total gross proceeds of $10.6 million.

On April 12, 2007 the Company closed a $9.1 million asset acquisition in the Buffalo Lake area, adding approximately 180 boe/d of net natural gas production, 0.84 MMboe of net proven plus probable reserves and over 25.5 net sections of land.

On July 20, 2007 Cordero announced the successful completion of the acquisition of a private natural gas company, Sebring Energy Inc. (Sebring). Under the terms of the offer, Cordero acquired all of the outstanding shares of Sebring and issued approximately 3.0 million Cordero common shares to Sebring shareholders. The acquisition extended Cordero's opportunity base in the Horseshoe Canyon fairway, complimenting the Company's existing lands and facilities. It included approximately 320 boe/d of production, 1.6 MMboe of proven plus probable reserves and 25,800 net acres of land in Cordero's core areas.

Recent Developments

On February 19, 2008 the Company announced that it entered into an agreement with ENMAX Corporation, (ENMAX) pursuant to which ENMAX will make an all-cash offer (the Offer) to acquire all of the issued and outstanding common shares on a fully diluted basis (the Shares) of Cordero by way of a take-over bid. Under the Offer, ENMAX will acquire the Shares at a price of $4.35 per Share, valuing the proposed transaction at approximately $218 million including the assumption of debt. The Offer will be subject to certain customary conditions including acceptance of the Offer by holders of at least 66 2/3 % of the outstanding Cordero Shares and receipt of all required regulatory approvals. The Offer, unless extended, is anticipated to close in mid-April 2008.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

Exploration and Development Strategy

Since inception the Company's strategy has been built upon a two-pronged growth plan: conventional exploration and development in Alberta and British Columbia and coalbed methane and conventional sand development in central Alberta. To minimize risk, in 2007 the Company shifted some its exposure from higher risk, higher impact exploration in northeast British Columbia and northwest Alberta by adding another potential exploration area in east central Alberta. In 2007 the Company completed one property acquisition and one corporate acquisition, both of which added land and facilities complimenting Cordero's existing assets.

Principal Properties

Coalbed Methane and Belly River Development

Malmo, Alberta
Malmo is located approximately 65 kilometres northeast of Red Deer, Alberta. Since the Company's inception this area has been expanded, through both Crown landsales and acquisition activities, to include Bashaw, Bittern Lake, Donalda and Lacombe. This area represents approximately 90% of the Corporation's total production.

The Company currently has over 250 drilling locations identified in the greater Malmo area and approximately 110,900 net acres of land, 51,800 acres of which are undeveloped.

Conventional Exploration and Development Properties

East Central Alberta
The Company has approximately 6,900 net acres of landholdings in an area from 50-11W4 to 66-22W4. There have been no wells drilled in this area to date; prospect generation is ongoing.

Trutch, British Columbia
At December 31, 2007 Cordero held 18,600 (15,700 net) acres of land in this area, approximately 170 kilometers north of Fort St. John. In 2007 the Company participated in three wells. The first well was spud in November, subsequently completed and tie-in is pending pressure build-up analysis. The second and third wells have been cased and are currently being evaluated.

Willesden Green, Alberta
At December 31, 2007 Cordero held a 100% interest in 1,280 acres of land in this area located 90 kilometres west of Red Deer. The Company currently has 3 (3.0 net) producing wells on the property which represented substantially all of the Company's oil production for 2007.

Facilities

The Corporation has interest in one third-party operated natural gas plant and operates another plant (100% working interest), both of which are located in Alberta. The Company also has interest in numerous well site facilities such as pumpjacks, tanks, metres and well site compressors as well as pipelines, compressor stations and satellites required to gather production and transport it to the central processing facilities. All of these facilities are typical of those used in Canadian oil and gas operations. The Corporation's interests in plants and facilities range from 11% to 100%.

STATEMENT OF RESERVE DATA AND OTHER OIL AND GAS INFORMATION

The statement of reserves data and other oil and gas information set forth below (the Statement) was prepared by Sproule Associates Limited. It is dated February 8, 2008, has an effective date of December 31, 2007 and was prepared November 2007 to January 2008. As of the preparation date, Sproule was not aware of any new information (other than commodity pricing assumptions which may differ from those used in their analysis), which could materially impact their evaluation.

Disclosure of Reserves Data

The reserves data set forth below (Reserves Data) is based upon an evaluation by Sproule (the reserve report) with an effective date of December 31, 2007. The Reserves Data summarizes the oil, liquids and natural gas reserves of Cordero and the net present values of future net revenue for these reserves using forecast prices and costs, before and after taxes. The Reserves Data conforms to the standards in the COGE handbook and requirements of National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" (NI 51). Additional information not required by NI 51 has been presented to

provide continuity and additional information which management believes is important to the readers of this information. Cordero engaged Sproule to provide an evaluation of proved and proved plus probable reserves. The actual oil and natural gas reserves and future production may be greater than or less than the estimates provided in this annual information form. The estimated future net revenues from the production of the disclosed oil and natural gas reserves may not represent the fair market value of these reserves. For purposes of reporting production volumes as barrels of oil equivalent (boe), amounts have been calculated using an energy equivalence conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6:1).

All of Cordero's reserves at December 31, 2007 were located in Canada, and specifically in the provinces of Alberta and British Columbia.

Reserves Data

	Conventional Natural Gas (associated & non-associated)		Unconventional Natural Gas (CBM)		Conventional Light and Medium Oil		Conventional Natural Gas Liquids	
	Gross (MMcf)	Net (MMcf)	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)
Proved								
Developed Producing	8,049	6,806	21,265	18,462	115	106	52	37
Developed Non-producing	4,751	3,832	4,347	3,679	-	-	28	21
Undeveloped	5,672	4,792	21,031	18,207	-	-	-	-
Total Proved	18,472	15,430	46,643	40,348	115	106	80	58
Probable	7,549	6,292	25,869	22,418	70	66	38	28
Total Proved Plus Probable	26,021	21,722	72,512	62,766	185	172	118	86

Net Present Value of Future Net Revenue

	Before Income Taxes Present Worth Discounted at					Unit Value Before Income Taxes Discounted
($000s)	0%	5%	10%	15%	20%	10%
Proved						
Developed Producing	147,465	127,013	111,620	99,697	90,234	25.63
Developed Non-producing	33,588	28,075	23,900	20,651	18,065	18.77
Undeveloped	71,410	49,159	33,793	22,883	14,951	8.82
Total Proved	252,463	204,247	169,313	143,231	123,251	17.90
Probable	149,243	97,501	66,864	47,652	35,009	13.70
Total Proved Plus Probable	401,706	301,748	236,177	190,883	158,259	16.47

	After Income Taxes Present Worth Discounted at				
($000s)	0%	5%	10%	15%	20%
Proved					
Developed Producing	147,465	127,013	111,620	99,697	90,234
Developed Non-producing	28,315	23,840	20,453	17,812	15,701
Undeveloped	54,564	35,971	23,241	14,279	7,821
Total Proved	230,343	186,824	155,314	131,788	113,756
Probable	114,666	73,684	49,670	34,743	24,996
Proved Plus Probable	345,009	260,508	204,984	166,531	138,752

Total Future Net Revenue Undiscounted

Reserves Category ($000s)	Revenue	Royalties	Operating Costs	Development Costs	Well Abandonment and Reclamation	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
Proved	506,696	68,841	114,119	62,098	9,175	252,463	22,120	230,343
Proved Plus Probable	788,877	106,570	183,701	85,231	11,669	401,706	56,697	345,009

Net Present Value of Future Net Revenue by Production Group

Reserves Category	Production Group	Future Net Revenues Before Income Taxes (Discounted at 10%/year) ($000s)	Unit Value Before Income Taxes (Discounted at 10%/year) ($/boe)
Proved	Coalbed methane	106,896	15.90
	Conventional natural gas (including associated by-products)	54,601	21.46
	Light and medium crude oil (including solution gas and associated by-products)	7,816	40.72
Proved Plus Probable	Coalbed methane	153,094	14.63
	Conventional natural gas (including associated by-products)	72,239	20.26
	Light and medium crude oil (including solution gas and associated by-products)	10,843	34.70

Summary of Pricing and Inflation Rate Assumptions

The following table sets out historical and forecasted benchmark prices, reflected in the Reserves Data. These price assumptions were provided to Cordero by Sproule, Cordero's independent qualified evaluator.

Year	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par Price 40°API ($Cdn/bbl)	Cromer Medium 29.3° API ($Cdn/bbl)	Natural Gas AECO Gas Price ($Cdn/ MMbtu)	Butanes F.O.B Field Gate ($Cdn/bbl)	Pentanes Plus F.O.B Field Gate ($Cdn/bbl)	Inflation Rate(1) % Year	Exchange Rate(2) ($US/$Cdn)
Historical								
2003	31.14	43.23	37.53	6.66	34.55	44.16	2.5	0.716
2004	41.42	52.91	45.72	6.87	41.37	53.91	1.3	0.770
2005	56.46	69.29	57.36	8.58	45.20	69.13	1.6	0.826
2006	66.09	73.30	62.35	7.16	59.32	75.03	1.5	0.882
2007	72.27	77.06	65.36	6.65	63.71	77.33	1.5	0.935
Forecast								
2008	89.61	88.17	75.83	6.51	65.72	90.30	2.0	1.000
2009	86.01	84.54	72.71	7.22	63.01	86.58	2.0	1.000
2010	84.65	83.16	71.52	7.69	61.98	85.17	2.0	1.000
2011	82.77	81.26	69.89	7.70	60.57	83.23	2.0	1.000
2012	82.26	80.73	69.43	7.61	60.17	82.68	2.0	1.000

Notes:
(1) Inflation rates for forecasting prices and costs.
(2) Exchange rates used to generate the benchmark reference prices in this table.

Cordero's weighted average prices received in 2007 after quality/heating value differentials were $6.74/Mcf (including gains on derivative financial instruments of $0.33/Mcf) for natural gas and $70.95/bbl for oil and NGLs.

Reconciliation of Changes in Gross Reserves[1] and by Principal Product Type

	Conventional Light/Medium Oil			Conventional Natural Gas (associated, non-associated)		
Factors	**Gross Proved (Mbbl)**	**Gross Probable (Mbbl)**	**Gross Proved Plus Probable (Mbbl)**	**Gross Proved (MMcf)**	**Gross Probable (MMcf)**	**Gross Proved Plus Probable (MMcf)**
December 31, 2006	130.2	67.6	197.8	14,661	5,686	20,347
Extensions	-	-	-	3,246	1,891	5,137
Improved recovery	-	-	-	-	-	-
Technical revisions	(0.7)	(0.2)	(0.8)	(1,690)	(1,561)	(3,251)
Discoveries	-	-	-	1,025	248	1,273
Acquisitions	13.3	3.0	16.3	3,637	1,311	4,948
Dispositions	-	-	-	-	-	-
Economic factors	0.6	-	0.6	142	4	146
Production	(28.4)	(0.1)	(28.5)	(2,549)	(30)	(2,579)
December 31, 2007	115.0	70.3	185.4	18,472	7,549	26,021

	Coalbed Methane Gas			Barrels of Oil Equivalent[2]		
Factors	**Gross Proved (MMcf)**	**Gross Probable (MMcf)**	**Gross Proved Plus Probable (MMcf)**	**Gross Proved (Mboe)**	**Gross Probable (Mboe)**	**Gross Proved Plus Probable (Mboe)**
December 31, 2006	38,194	19,570	57,764	8,939	4,278	13,217
Extensions	6,768	6,892	13,660	1,669	1,464	3,133
Improved recovery	-	-	-	-	-	-
Technical revisions	(2,844)	(4,429)	(7,273)	(756)	(999)	(1,755)
Discoveries	1,208	1,194	2,402	372	240	612
Acquisitions	8,308	2,611	10,919	2,004	657	2,661
Dispositions	-	-	-	-	-	-
Economic factors	274	36	310	70	7	77
Production	(5,264)	(5)	(5,269)	(1,331)	(7)	(1,338)
December 31, 2007	46,644	25,869	72,513	10,967	5,640	16,607

(1) Gross reserves means the Company's working interest reserves before calculation of royalties and before consideration of the Company's royalty interests.
(2) Reconciliation does not include NGLs.

Undeveloped Reserves

At December 31, 2007, approximately 40% of Cordero's total proved reserves and approximately 58% of total probable reserves were undeveloped. The following table sets forth the volume of first attributed gross and year end total company proved undeveloped reserves, at December 31, for each of the most recent three financial years:

	Conventional Natural Gas (MMcf)		Unconventional Natural Gas (CBM) (MMcf)		Conventional Light and Medium Oil (Mbbl)		Conventional Natural Gas Liquids (Mbbl)	
Period	**First Attributed**	**Year End Total**	**First Attributed**	**Year End Total**	**First Attributed**	**Year End Total**	**First Attributed**	**Year End Total**
2005[1]	2,364	2,364	15,022	15,022	161	161	13	13
2006	-	813	9,510	16,312	-	-	-	-
2007	3,617	5,672	12,133	21,031	-	-	-	-

The following table sets forth the volume of first attributed and year end total gross company probable undeveloped reserves, at December 31, for each of the most recent three financial years:

Period	Conventional Natural Gas (MMcf) First Attributed	Year End Total	Unconventional Natural Gas (CBM) (MMcf) First Attributed	Year End Total	Conventional Light and Medium Oil (Mbbl) First Attributed	Year End Total	Conventional Natural Gas Liquids (Mbbl) First Attributed	Year End Total
2005[(1)]	1,081	1,081	5,341	5,341	24	24	2	2
2006	-	406	9,019	12,420	-	-	-	-
2007	2,126	3,464	9,649	16,244	-	-	-	-

(1) The Company commenced operations on April 30, 2005.
(2) First Attributed Reserves include reserve acquisitions, discoveries and extensions.

All proven and probable undeveloped reserves are attributable to drilling new locations and recompletion of zones in existing wellbores within the Malmo area.

Significant Factors or Uncertainties

Significant economic factors or uncertainties that may potentially affect particular components of the reserves data as presented in this document are discussed in the Management's Discussion and Analysis in Appendix A.

Future Development Costs

The following table sets forth estimated future development costs deducted in the estimation of Cordero's future net revenue attributable to the reserve categories noted below:

Year	Forecast Prices and Costs ($000s) Proved	Proved plus Probable
2008	26,765	35,982
2009	25,673	30,462
2010	9,660	18,787
2011	-	-
2012	-	-
Remainder	-	-
Total	62,098	85,231
Discounted @ 10%	55,413	75,442

The Corporation expects to fund the future development through a combination of internally-generated cash flow and debt. Funding alternatives chosen by the Company will be influenced by the capital market environment for equity, the cost of debt and the nature and amount of actual expenditures being incurred.

Other Oil and Gas Information

Oil and Natural Gas Wells

The following table illustrates the number and status of wells in which Cordero has a working interest as at December 31, 2007, which are producing or which the Corporation considers to be capable of production.

	Producing Oil Gross	Net	Producing Natural Gas Gross	Net	Shut-in Oil Gross	Net	Shut-in Natural Gas Gross	Net
Canada								
Alberta	9	6.2	262	199.1	-	-	24	19.9
British Columbia	-	-	2	0.8	-	-	6	4.1
Total Canada	9	6.2	264	199.9	-	-	30	24.0

Of the shut in wells located in Alberta, 2 (2.0 net) came on production subsequent to December 31, 2007 and 21 (17.7 net) were cased. All are within reasonable proximity of pipelines.

Of the shut in wells located in British Columbia 1 (0.3 net) was cased with tie-in pending pressure build-up analysis. The remaining 5 (3.8 net) were acquired in the plan of arrangement and are in remote locations. These wells are under review in terms of production potential and further plans for infrastructure.

Properties with no Attributed Reserves

The following table summarizes the Company's approximate undeveloped crude oil and natural gas land holdings as at December 31, 2007:

	Undeveloped Land		
Property	**Gross Acres**	**Net Acres**	**Average Working Interest (%)**
Alberta	190,616	146,903	77
British Columbia	18,504	15,968	86
Saskatchewan	640	640	100
Total	209,760	163,511	78

A total of 15,282 net acres of undeveloped land are scheduled to expire during 2008. The Corporation will seek to extend the tenure on a portion of these lands prior to expiry.

Forward Contracts

The Corporation has dedicated approximately 5-10% of production to an aggregator contract and with the exception of any volumes hedged through the Company's risk management program, the remainder is sold on the Alberta spot market. A summary of Cordero's natural gas forward contracts currently outstanding is provided in notes 14 and 15 of the Corporation's financial statements in Appendix B.

Abandonment and Reclamation Costs

Cordero has estimated abandonment and reclamation for all producing wells, non-producing wells and facilities. As at December 31, 2007 Cordero had 296.7 net wells for which abandonment and/or reclamation costs have been provided. Estimated timing of abandonment of the Company's wells was derived from the reserve report. Costs estimates for all facilities and Alberta wells are consistent with the guidelines provided in EUB Interim Directive 011. Costs for abandonment and reclamation of British Columbia wells were estimated by Cordero's internal reservoir engineers. Estimates of abandonment costs for wells range from $20,600 to $50,000 and estimates of reclamation costs for wells range from $13,200 to $50,000. Facility abandonment and reclamation costs range from $11,000 to $212,000 for the Corporation's facilities with interest, ranging from 11% to 100%.

Cordero's estimated abandonment and reclamation costs of $14.2 million exceed the amounts used to calculate total future net revenue from proved plus probable reserves by $2.5 million. The Company's estimated abandonment and reclamation costs undiscounted and discounted at 10% are as follows:

	Total Abandonment and Reclamation Costs ($000s)	
Year	Discounted at 10%	Undiscounted
2008	137	151
2009	202	245
2010	113	150
2011	225	329
2012	232	374
Remainder	4,055	12,969
Total	4,964	14,218

Tax Horizon

In 2007 Cordero was not subject to income tax and does not expect to pay current income tax until 2009 or later based on existing tax pools, planned capital activities and current forecasts of taxable income. However, the current tax horizon will ultimately depend on several factors including commodity prices, future production, corporate expenses and both the type and amount of capital expenditures. Total estimated income tax pools available at January 1, 2008 were $181 million. For further information on income tax pools see Management's Discussion and Analysis in Appendix A.

Capital Expenditures Incurred

The following table summarizes capital expenditures made by the Company in exploration and development drilling, production facilities and other equipment for the periods indicated:

	Three Months Ended 2007				
($000s)	**March 31**	**June 30**	**September 30**	**December 31**	**Total**
Land acquisition and retention	731	2,360	658	528	4,277
Geological and geophysical	36	57	28	213	334
Exploration drilling	4,935	653	613	1,064	7,265
Development drilling	6,087	7,185	5,595	1,965	20,832
Plant and production facilities	3,609	1,204	1,785	1,814	8,412
Property acquisitions	-	9,129	-	-	9,129
Other	579	823	843	869	3,114
Total capital expenditures	15,977	21,411	9,522	6,453	53,363
Dispositions(1)	-	(1,000)	-	-	(1,000)
Net capital expenditures	15,977	20,411	9,522	6,453	52,363
Corporate acquisition (non-cash)(2)	-	-	19,414	54	19,468
Total net capital expenditures	15,977	20,411	28,936	6,507	71,831

(1) Represents dispositions of undeveloped properties
(2) Represents fair value of shares issued ($17.7 million) plus transaction costs of $0.9 million plus working capital obligations acquired ($0.8 million)

Exploration and Development Activities

The following table sets forth the gross and net wells in which the Company participated during the year ended December 31, 2007:

	Number of Wells					
	Exploration		**Development**		**Total**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Natural gas	5	2.0	35	33.6	40	35.6
Crude oil	-	-	-	-	-	-
Dry	5	3.5	-	-	5	3.5
Total	10	5.5	35	33.6	45	39.1
Average working interest (%)		55		96		87
Success rate (%)		36		100		91

Production Estimates

The following table sets out the gross volume of Cordero's 2008 average estimated production which is reflected in the estimate of future net revenue disclosed in the tables contained under "Disclosure of Reserves Data". These estimates include royalty production.

	Conventional Light and Medium Oil (bbl/d)	Conventional Natural Gas (Mcf/d)	Unconventional Natural Gas (CBM) (Mcf/d)	Conventional Natural Gas Liquids (bbl/d)	BOE (boe/d)
Proved Producing					
Malmo	-	3,958	13,040	-	2,833
Other	62	1,685	-	34	377
Total Proved Producing	62	5,643	13,040	34	3,210
Proved					
Malmo	4	5,473	16,078	-	3,596
Other	58	2,087	-	41	447
Total Proved	62	7,560	16,078	41	4,043
Proved Plus Probable					
Malmo	4	5,791	17,055	-	3,812
Other	60	2,223	-	44	474
Total Proved Plus Probable	64	8,014	17,055	44	4,286

The forecast of production involves estimates and assumptions of various factors including new well production rates, facility on-times and operating conditions. Actual conditions and production may vary without affecting ultimate reserve recovery.

Production History and Netback Analysis

The following table sets forth certain production information in respect of production, product prices received, royalties paid, operating expenses and resulting netbacks of Cordero for the periods indicated below:

	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
Volumes				
Natural gas (Mcf/d)[1]	20,078	21,277	22,351	21,787
Crude oil (bbls/d)	79	79	72	77
NGL (bbls/d)	41	24	22	27
Oil equivalent (boe/d)	3,467	3,650	3,819	3,736
Realized prices				
Natural gas ($/Mcf) [2]	7.46	7.29	5.83	6.46
Crude oil ($/bbls)	67.23	71.86	79.92	82.68
NGL ($/bbls)	54.98	58.57	57.66	66.83
Royalty				
Natural gas ($/Mcf)	1.01	1.07	0.74	0.84
Crude oil ($/bbls)	8.60	12.26	11.25	10.54
NGL ($/bbls)	9.65	13.82	17.12	12.97
Operating Costs				
Natural gas ($/Mcf)	0.68	0.73	0.82	0.85
Crude oil ($/bbls)	9.12	11.48	8.92	7.25
NGL ($/bbls)	5.40	6.85	5.16	4.68
Transportation Costs				
Natural gas ($/Mcf)	0.24	0.14	0.13	0.15
Crude oil ($/bbls)	1.05	1.38	1.35	1.28
NGL ($/bbls)	1.35	1.36	1.45	1.36
Netbacks				
Natural gas ($/Mcf)	5.53	5.35	4.14	4.62
Crude oil ($/bbls)	48.46	46.74	58.40	63.61
NGL ($/bbls)	38.58	36.54	33.93	47.82

(1) Approximately 68% of natural gas production volumes and the related revenues, royalties, operating costs and transportation costs for the year ended December 31, 2007 are attributable to coalbed methane. As the Company has wells which produce both coalbed methane and natural gas from the Belly River zone, it is not reasonable to split revenue, royalties, operating costs and transportation costs between the two commodity types.

(2) Includes realized gains on derivative financial instruments.

Notes

In the tables set forth above and elsewhere in this AIF, the following definitions and other notes are applicable:

(1) "Gross" means

   (a) *In relation to Cordero's interest in production and reserves, "Cordero's gross reserves", which are Cordero's interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of Cordero;*

   (b) *In relation to wells, the total number of wells in which Cordero has an interest; and*

   (c) *In relation to properties, the total area of properties in which Cordero has an interest.*

(2) "Net" means:

   (a) *In relation to Cordero's interest in production and reserves, "Cordero's net reserves", which are Cordero's interest (operating and non-operating) share after deduction of royalties' obligations, plus Cordero's royalty interest in production or reserves;*

   (b) *In relation to wells, the number of wells obtained by aggregating Cordero 's working interest in each of its gross wells; and*

   (c) *In relation to Cordero's interest in a property, the total area in which Cordero has an interest by the working interest owned by Cordero.*

(3) *Reserve Categories - Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on:*

   (a) *Analysis of drilling, geological, geophysical and engineering data;*

   (b) *The use of established technology; and*

   (c) *Specified economic conditions (see the discussion of "Economic Assumptions" below).*

Reserves are classified according to the degree of certainty associated with the estimates. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

(4) *"Economic Assumptions" will be the prices and costs used in the estimate, namely:*

(a) *Constant prices and costs as at the last day of Cordero's financial year; and*

(b) *Forecast prices and costs.*

(5) *Development and Production Status - Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:*

(a) *Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.*

(b) *Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production and the date of resumption of production must be known with reasonable certainty.*

(c) *Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production but are shut-in and the date of resumption of production is unknown.*

(d) *Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved or probable) to which they are assigned.*

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

(6) *Levels of Certainty for Reported Reserves - The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:*

(a) *At least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves;*

(b) *At least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.*

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

(7) *Forecast Prices and Costs - Future prices and costs that are:*

(a) *Generally acceptable as being a reasonable outlook of the future; and*

(b) *If, and only to the extent that, there are fixed or presently determinable future prices or costs to which Cordero is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).*

The forecast summary table under "Pricing Assumptions" identifies benchmark reference pricing that applies to Cordero.

(8) *Constant Prices and Costs - Prices and costs used in an estimate that are:*

(a) *Cordero's prices and costs as at the effective date of the estimation, held constant throughout the estimated lives of the properties to which the estimate applies; and*

(b) *If, and only to the extent that, there are fixed or presently determinable future prices or costs to which Cordero is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).*

For the purposes of paragraph (a), Cordero prices are the posted prices for oil and the spot price for gas, after historical adjustments for transportation, gravity and other factors.

(9) *"Development well" means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.*

(10) *"Development costs" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:*

(a) *Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground draining, road building, and relocating public roads, gas lines and power lines, pumping equipment and wellhead assembly;*

(b) *Drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;*

(c) *Acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and*

(d) *Provide improved recovery systems.*

(11) *"Exploration well" means a well that is not a development well, a service well or a stratigraphic test well.*

(12) *"Exploration costs" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:*

(a) *Costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;*

(b) *Costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;*

(c) *Dry hole contributions and bottom hole contributions;*

(d) *Costs of drilling and equipping exploratory wells; and*

(e) *Costs of drilling exploratory type stratigraphic test wells.*

(13) *"Service wells," means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.*

(14) *Tables may not add due to rounding.*

(15) *The estimates of future net revenue presented in the tables do not represent fair market value.*

(16) *Disclosure provided herein in respect of boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbls is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

(17) *Estimated well abandonment and disconnect costs related to existing producing wells and future locations to which reserves have been assigned, have been taken into account by Sproule in determining reserves that should be attributable to a property and in determining the aggregate future net revenue therefrom.*

(18) *Both the constant and forecast price and cost assumptions assume the continuance of current laws and regulations.*

(19) *The extended character of all factual data supplied to Sproule was accepted by Sproule as represented. No field inspection was conducted.*

CAPITAL STRUCTURE

The Corporation's capital structure as at December 31, 2007 was as follows:

Security	Authorized	Issued	Outstanding at December 31, 2007
Common shares (voting)	Unlimited	37,026,616	37,026,616
Preferred shares	Unlimited	-	-
Performance shares	See below	725,900	187,968
Stock options	See below	3,473,300	2,869,900
Performance warrants	1,916,376	1,916,376	1,786,294

The aggregate number of common shares and any other security-based share compensation of Cordero reserved for issuance under the performance share and stock option plans is fixed at a rolling maximum of 10% of the issued and outstanding common shares calculated on a non-diluted basis.

The preferred shares are issuable in series. Subject to the provisions of the Alberta Corporation Act the directors for Cordero may fix, from time to time, the designation rights, privileges, restrictions and conditions attaching to each series of preferred shares.

Each performance share was issued for a price of $0.01/share and is convertible into the percentage of a Cordero common share equal to the closing trading price on the three annual anniversary dates following April 29, 2005, of the Cordero common shares less $2.87 if positive, divided by the Cordero closing share price. The performance shares automatically convert into Cordero common shares as to one-third on each of the anniversary dates after April 29, 2005. As at December 31, 2007, 483,934 of the performance shares had been converted into 273,959 common shares.

Vesting and expiry provisions vary for each stock option grant and are determined at the grant date.

Each performance warrant is exercisable into one common share of the company at a price of $2.87/share. The performance warrants have a term of five years and vesting is subject to performance conditions, which were met in 2006. One-third of the warrants vested on April 29, 2006, one-third on April 29, 2007 and the remainder are scheduled to vest on April 29, 2008.

DIVIDENDS

Cordero has not declared or paid dividends on its voting common shares. Any decisions to pay dividends will be made by the board of directors on the basis of Cordero's earnings, financial requirements and other conditions existing at such future time.

INDUSTRY CONDITIONS AND RISK FACTORS

Industry Conditions

Oil and natural gas operations are subject to extensive controls and regulations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and, with respect to pricing and taxation of oil and natural gas, by agreements among the governments of Canada, Alberta and British Columbia, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the operations of Cordero in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and Cordero is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

Prices and Marketing – Oil, Natural Gas and Associated Products
In the provinces of Alberta and British Columbia, oil, natural gas and associated products are generally sold at market index based prices. These indices are generated at various sales points depending on the commodity and are reflective of the current value of the commodity adjusted for quality, heating value and locational differentials. While these indices tend to track industry reference prices (ie. Price of West Texas Intermediate crude oil at Cushing, Oklahoma or price of natural gas at Henry Hub, Louisiana), some variances can occur due to specific supply-demand imbalances. These differentials can change on a monthly or daily basis depending on the supply-demand fundamental at each location as well as other non-related changes such as the value of the Canadian dollar and the cost of transporting the commodity to the pricing point of the particular index.

North American Free Trade Agreement
The North American Free Trade Agreement (NAFTA) among the governments of Canada, United States of America and Mexico, became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada – United States Free Trade Agreement. Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period); (ii) impose an export price higher than the domestic price; or (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

Provincial Royalties and Incentives
In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur and natural gas (including CBM) production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the petroleum product produced.

From time to time the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays and tax credits, and are generally introduced when commodity prices are low. The purpose of the program is to encourage exploration and development activity by improving earnings and cash flow within the industry.

In 2006 the Alberta government announced the termination of the Alberta Royalty Tax Credit (ARTC) program effective January 1, 2007. Under this program a maximum credit of $2,000,000 could be claimed against eligible Alberta Crown royalties. In 2006 the Company claimed the maximum credit therefore its 2007 Crown royalty rate is proportionately higher. In October 2007 the Province of Alberta issued certain details of its proposed changes to the Alberta crude oil and natural gas royalty regime, effective January 1, 2009. These changes include new royalty formulas for crude oil and natural gas that are to operate on sliding scales ranging up to 50% determined by commodity prices and well productivity. The calculations performed by the Company's independent reserve engineers indicate that Cordero's net present value of proved plus probable reserves, discounted at 10%, is approximately 4.5% higher as a result of this proposed regime. However, there is no certainty that the changes as proposed will be legislated.

Land Tenure

Crude oil and natural gas (including CBM) located in Western Canada is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas on freehold lands are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is subject to environmental regulation pursuant to a variety of international conventions and Canadian federal, provincial and municipal laws, regulations, and guidelines. Such regulation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such regulation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such regulation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties.

Environmental legislation in the Province of Alberta has been consolidated into the Alberta Environmental Protection and Enhancement Act (AEPEA), which came into force on September 1, 1993. The AEPEA imposes strict environmental standards, requires stringent compliance, reporting and monitoring obligations and significant penalties. Cordero is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment and will be taking such steps as required to ensure compliance with the AEPEA and similar legislation in other jurisdictions in which it operates. Cordero also believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue.

Risk Factors

Risk factors are described in the Management's Discussion and Analysis in Appendix A.

SELECTED FINANCIAL INFORMATION

The following table summarizes certain annual financial information relating to the Company:

($000s except per share amounts)	Quarter Ended 2007				
	December 31	September 30	June 30	March 31	Total 2007
Petroleum and natural gas revenue[1]	13,706	12,643	14,760	14,166	55,276
Net earnings (loss)	(767)	367	1,234	2,029	2,863
Per share – basic ($)	(0.02)	0.01	0.04	0.06	0.08
Per share – diluted ($)	(0.02)	0.01	0.03	0.06	0.08
Funds flow from operations [2]	8,351	7,560	9,392	9,539	34,842
Per share – basic ($)	0.23	0.21	0.28	0.28	0.99
Per share – diluted ($)	0.22	0.20	0.26	0.27	0.96
Net capital expenditures[3]	6,453	9,522	20,411	15,977	52,363
Net debt and working capital[4] deficiency	50,811	52,507	48,820	38,086	50,811
Total assets	200,057	200,842	175,720	162,558	200,057
Total long-term liabilities	57,490	57,437	52,082	36,171	57,490
Shareholders equity	132,949	133,058	114,976	112,363	132,949

(1) Includes realized gains on derivative financial instruments.
(2) Funds flow from operations represents earnings before unrealized gains or losses on financial instruments, depletion, depreciation, accretion, stock-based compensation and future income taxes. It does not have any standardized meaning as prescribed by Canadian generally accepted accounting principles (GAAP) and is therefore unlikely to be comparable to similar measures presented by other companies.
(3) Does not include corporate acquisitions.
(4) Net debt and working capital represents current assets less current liabilities, debt and capital lease obligations. It does not have a standardized meaning prescribed by the Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements are described in the Corporation's Management's Discussion and Analysis in Appendix A.

MARKET FOR SECURITIES

The Corporation's common shares are listed on the Toronto Stock Exchange and trade under the symbol "COR".

		Trading Price Per Share ($)	
2007	**Trading Volume (000s)**	**High**	**Low**
January	493	6.60	5.80
February	2,159	6.29	4.61
March	3,987	5.75	4.75
April	2,543	6.40	5.17
May	2,748	6.50	5.90
June	1,807	6.25	5.13
July	451	5.73	4.50
August	1,078	4.78	3.59
September	1,799	4.44	3.51
October	2,039	3.70	3.10
November	2,700	3.46	2.65
December	1,630	3.40	2.60
2008			
January	777	3.76	3.12
February	9,538	4.31	3.35
March (up to March 3, 2008)	52	4.31	4.30

At the Company's inception, 725,900 performance shares were issued for a price of $0.01/share. One-third of the performance shares automatically convert into Cordero common shares, on each of the first, second and third anniversaries of the closing of the arrangement if the holder is a service provider on such a date. The number of Cordero common shares that will be issued for each performance share is based on a specified formula. As at December 31, 2007, 483,934 performance shares had been converted to 273,959 common shares.

DIRECTORS AND OFFICERS

Directors

The names, municipalities of residence, positions held with the Corporation and principal occupations of the directors of Cordero Energy are as follows. The term of office of each director will expire at the next annual meeting of the Company, unless his office is earlier vacated.

Name, Present Office Held and Municipality of Residence	Director Since	Five Year History of Principal Occupations
Brian K. Lemke Chairman Calgary, Alberta	April 2005	Brian Lemke was President and Chief Executive Officer of Resolute Energy Inc. from November 2002 to April 2005 prior to which he was Executive Vice President of the company. Formerly Mr. Lemke was Chief Financial Officer of Crestar Energy Inc., and Chief Financial Officer of HCO Energy Ltd. He is a current director of Laricina Energy Ltd., Madagascar Oil Limited and the Calgary YMCA. Mr. Lemke is a Chartered Accountant and holds a Bachelor of Science in Biology from the University of Calgary.
Donald P. Driscoll (1)(3) Director Calgary, Alberta	August 2005	Donald Driscoll was Director, President and Chief Executive Officer of NAL Oil & Gas Trust from 1996 until May 2005. He served on the board of Resolute Energy Inc. until its sale in April 2005 and is currently on the board of Intrepid Energy Corporation. Mr. Driscoll holds a Bachelor of Science in Physics from St. Francis Xavier University and an MBA from the University of Western Ontario.
David V. Elgie President and Chief Executive Officer and Director Calgary, Alberta	March 2005	David Elgie has 27 years of oil and gas experience, most recently as Executive Vice President and Chief Operating Officer of Resolute Energy Inc. from August 2003 to April 2005. Prior to Resolute he held the position of Vice President Engineering and Chief Operating Officer of Southward Energy Ltd., and during his 14 years with Canadian Hunter Exploration Ltd. he held various exploration and production roles, including Vice President Acquisitions and Business Development at the time of the company's sale in 2001. Mr. Elgie is the former Chairman of the Canadian Section of the Society of Petroleum Engineers and is presently a member of the Engineering Advisory Council for the University of Calgary. He has a degree in Chemical Engineering from the University of British Columbia and is a Professional Engineer.
S. Barry Jackson (2)(3) Director Calgary, Alberta	April 2005	Barry Jackson serves on the boards of Nexen Inc., TransCanada Pipelines Limited and Laricina Energy Ltd. and was Chairman of the Board of Resolute Energy Inc. from its inception in December 2001 until April 2005. Mr. Jackson has a Bachelor of Science degree (Engineering) from the University of Calgary and is a Professional Engineer.
Douglas G. Manner (1)(2) Director Dallas, Texas	April 2005	Douglas Manner is President and Chief Executive Officer of Westside Energy Corporation. Previous positions include Senior Vice-President and Chief Operating Officer of Kosmos Energy LLC, President and Chief Operating Officer of Whitestone Energy LLC; Chairman and Chief Executive Officer of Bellwether Exploration, and Chief Operating Officer of Gulf Canada Resources Limited. Mr. Manner is a former board member of Resolute Energy Inc. and a current board member of Westside Energy Corporation, Rio Vista Energy Partners and Irvine Energy PLC. He holds a Bachelor of Science degree (Mechanical Engineering) from Rice University.
Robert R. Rooney (1)(2)(3) Director Calgary, Alberta	April 2005	Mr. Rooney is a director of several public and private corporations, including MGM Energy Corp., Gentry Resources Ltd., Madagascar Oil Limited, Temple Energy Inc., Ferus Trust, Engineered Drilling Solutions Inc., Alberta Alpine Ski Association and previously, Resolute Energy Inc. and Blizzard Energy Inc and Zenas Energy Corp. Until November 2005 Robert Rooney was a partner with Bennett Jones LLP where he was a member of the Executive Committee and led the firm's Energy and Natural Resources practice group. Mr. Rooney has an LLB from the University of Western Ontario and is a member of the Law Society of Alberta.

Jeffrey T. Smith (1)(2) Director Calgary, Alberta	April 2005	Jeffrey Smith has over 30 years of experience in the Canadian oil and gas industry and for the past five years has been an independent businessman, investor and corporate director. He is a director of Compton Petroleum Corporation, Provident Energy Trust and Intrepid Energy Corporation. He was previously a director of Resolute Energy Inc., Tethys Energy Inc., Beau Canada Exploration Ltd. and Maxx Petroleum Ltd. Mr. Smith has an Honours Bachelor of Science degree (Geology) from the University of Ottawa. He is a member of the Canadian Society of Petroleum Geologists and the Association of Professional Engineers, Geologists, and Geophysicists of Alberta.

(1) Member of the Audit and Finance Committee
(2) Member of the Technical Committee
(3) Member of the Human Resources and Governance Committee

Officers

Name, Present Office Held and Municipality of Residence	Officer Since	Five Year History of Principal Occupations
David V. Elgie President and Chief Executive Officer Calgary, Alberta	March 2005	See table under "Directors and Officers - Directors".
C. Dean Setoguchi Vice President and Chief Financial Officer Calgary, Alberta	April 2005	Dean Setoguchi has 19 years of experience in the oil and gas industry, most recently as Vice President and Chief Financial Officer of Resolute Energy Inc. from August 2003 to April 2005. Prior positions include Vice President Finance of Bow Valley Energy Ltd. from October 2001 to July 2003 and Vice President Finance of Courage Energy Inc. from August 2000 to October 2001. Mr. Setoguchi holds a Bachelor of Management degree from the University of Lethbridge and is a Chartered Accountant. Mr. Setoguchi serves on the Board of Governors for the University of Lethbridge.
Richard W. Gleasure Vice President and Chief Operating Officer Calgary, Alberta	April 2005	Richard Gleasure has 22 years of industry experience, most recently as General Manager of Production Operations of Resolute Energy Inc. He was previously Production Operations Manager with Burlington Resources Canada and held various positions at Canadian Hunter Exploration Ltd., including Senior Exploitation Engineer. Mr. Gleasure has a BASc and MASc in Chemical Engineering from the University of Toronto and is a Professional Engineer.
Neil Wilson Vice President Engineering Calgary, Alberta	March 2007	Mr. Wilson has been with Cordero since April 2005 and was promoted to Vice President Engineering in March 2007. Prior to Cordero, he was Senior Exploitation Engineer with Resolute Energy from June 2003 to April 2005. Prior to Resolute he held positions with Rio Alto, Canadian Natural Resources, Cabre Exploration and Pancanadian. Mr. Wilson has a BSc. in Geological Engineering and is member of APEGGA, the Canadian Society of Petroleum Engineers and the Canadian Institute of Mining, Metallurgy and Petroleum.
Tom Zavesiczky Vice President, Exploration Calgary, Alberta	March 2007	Mr. Zavesiczky has 27 years of experience in oil and gas exploration, development and management. Most recently he was a founder and Vice President Exploration with Starboard Gas Ltd, a successful private exploration and development company until its sale in 2006. Prior to Starboard, he was Vice President Exploration at Southward Energy Ltd. from January 1998 to April 2003. Mr. Zavesiczky also held various positions of increasing exploration and management responsibilities throughout the balance of his career with Elan Energy, ATCOR Resources and Gulf Canada Resources. Mr. Zavesiczky holds a BSc. Honours degree in Earth Sciences from the University of Waterloo, is a member of the CSPG and is a Professional Geologist.

As at March 3, 2008, the directors and executive officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 3,580,806 common shares, which represented approximately 10% of the outstanding common shares.

TRANSFER AGENT AND REGISTRAR

Valiant Trust Company in Calgary, Alberta is the transfer agent and registrar of the common shares.

INTERESTS OF EXPERTS

Based on information provided by Sproule, there are no beneficial interests in the Company's securities or property held by Sproule or any partners, employees or consultants of Sproule who participated in and who were in a position to directly influence the preparation of the Sproule Report, or any such person who, at the time of the preparation of the report was in a position to directly influence the outcome of the preparation of the report.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, principal holders of Cordero's securities and options to purchase securities is contained in the Information Circular for Cordero's most recent annual meeting of shareholders that involved the election of directors. Additional information is provided in the Corporation's audited consolidated financial statements (see Appendix B) and Management's Discussion and Analysis (see Appendix A) for the period ended December 31, 2007. These documents as well as further information respecting the Company may be found on SEDAR at www.sedar.com and the Company's website at www.corderoenergy.com.

Copies of the documents referred to above may be obtained upon request from the Chief Financial Officer, provided that, if the request is made by a person who is not a shareholder of the Corporation, payment of a reasonable charge for such copies may be required.

APPENDIX A

Management's Discussion and Analysis

March 4, 2008

Description of Business

Cordero Energy Inc. ("Cordero" or "the Company") is a junior oil and gas company pursuing oil and natural gas production and reserve growth through the development of its coalbed methane (CBM) and Belly River lands in central Alberta as well as conventional exploration in Alberta and British Columbia.

Cordero is based in Calgary, Alberta and was incorporated on March 30, 2005 under the Business Corporations Act (Alberta). The Company commenced operations on April 30, 2005 when certain oil and gas properties were transferred to Cordero in exchange for common shares of the Company under a plan of arrangement involving Resolute Energy Inc. (Resolute), Esprit Energy Trust, Esprit Exploration Ltd., Cordero and Cordero Finance Corp. Cordero commenced trading on the Toronto Stock Exchange on May 3, 2005 under the symbol "COR".

Reader Guidance

This Management's Discussion and Analysis (MD&A) of the financial condition and the results of operations should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 together with the related notes. Readers should be aware that historical results are not necessarily indicative of future performance. Additional information relating to the Company, including the Company's 2007 Renewal Annual Information Form which will be filed prior to March 14, 2008, can be viewed or downloaded at www.corderoenergy.com or www.sedar.com.

Production information is commonly reported in units of barrel of oil equivalent (boe) which may be misleading, particularly if used in isolation. For purposes of computing such units, barrel of oil equivalent amounts have been calculated using an energy equivalence conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6:1). The conversion ratio of 6:1 is based on an energy equivalency conversion method, which is primarily applicable at the burner tip. It does not represent equivalent wellhead value for the individual products.

The financial information presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The reporting and measurement currency is the Canadian dollar.

Forward-Looking Statements

The information herein contains forward-looking statements and assumptions, such as those relating to guidance, results of operations and financial condition, capital spending, financing sources, commodity prices, costs of production and the magnitude of oil and gas reserves. By their nature, forward-looking statements are subject to numerous risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, actual results may differ materially from those predicted. Cordero is exposed to numerous operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect anticipated future results.

Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, ability to attract and retain employees on a cost-effective basis, commodity and marketing risk and seasonality. The Company is subject to significant drilling risks and uncertainties including the ability to find oil and natural gas reserves on an economic basis and the potential for technical problems that could lead to well blowouts and environmental damage. The Company is also exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third party gathering and processing facilities, transportation and other third party related operational risks. Furthermore, there are numerous uncertainties in estimating the Company's reserve base due to the complexities in estimating future production, costs and timing of expenses and future capital. Financial risks Cordero is exposed to include, but are not limited to, access to debt or equity markets and fluctuations in commodity prices, interest rates and the Canadian/US dollar exchange rate. The Company is subject to regulatory legislation, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions. For additional information on risk factors, refer to Cordero's 2007 Renewal Annual Information Form at www.sedar.com or www.corderoenergy.com.

The forward-looking statements contained herein are as of March 4, 2008 and are subject to change after this date. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Except as required by applicable securities laws, Cordero disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

All forward-looking statements have been prepared on the basis that Cordero is a stand-alone Company and do not contemplate the effects of the offer from ENMAX Corporation as disclosed in the press release dated February 19, 2008.

Non-GAAP Measures

Cordero management uses and reports certain non-GAAP measures in the evaluation of operating and financial performance.

Funds flow from operations (funds flow), which represents earnings before unrealized gains or losses on derivative financial instruments, depletion, depreciation, accretion, stock-based compensation and future income taxes is used by the Company to evaluate operating performance, leverage and liquidity. The following table reconciles funds flow from operations to cash flow from operating activities which is the most directly comparable measure calculated in accordance with GAAP:

	Three Months Ended December 31		*Year Ended December 31*	
($000s)	*2007*	*2006*	*2007*	*2006*
Cash flow from operating activities	**6,845**	6,901	**34,872**	29,030
Changes in non-cash working capital	**1,328**	854	**(321)**	206
Asset retirement obligation expenditures	**178**	21	**291**	182
Funds flow from operations	**8,351**	7,776	**34,842**	29,418

Operating netback is calculated as average unit sales price less royalties, transportation costs and operating expenses. Corporate netback further deducts administrative and interest expense and current income tax. These measures represent the cash margin for every barrel of oil equivalent sold and are a common benchmark used in the oil and gas industry. There is no GAAP measure that is reasonably comparable to netbacks. See "Operating Netbacks by Product" for calculations of operating netbacks for each commodity.

Net debt and working capital, which is current assets less debt, capital lease obligations and current liabilities, is used to assess efficiency and financial strength. There is no GAAP measure that is reasonably comparable to net debt and working capital.

The above measures do not have standardized meanings prescribed by Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers.

2008 Guidance

The Company does not have 2008 guidance due to the agreement with ENMAX Corporation, announced on February 19, 2008. Pursuant to the agreement ENMAX will make an all-cash offer (the Offer) to acquire all of the issued and outstanding common shares on a fully diluted basis (the Shares) of Cordero by way of a take-over bid. Under the Offer, ENMAX will acquire the Shares at a price of $4.35 per Share, valuing the proposed transaction at approximately $218 million including the assumption of debt. The Offer will be subject to certain customary conditions including acceptance of the Offer by holders of at least 66 2/3 % of the outstanding Cordero Shares and receipt of all required regulatory approvals. The Offer, unless extended, is anticipated to close in mid-April 2008.

2007 Performance Compared to Guidance

	2007 Actual	*Revised November 2007 Low*	*Revised November 2007 High*	*August 2007 Low*	*August 2007 High*
Average production (boe/d)	3,669	3,650	3,750	3,700	4,000
Royalties (% of revenue)	14.3	14.0	15.0	15.0	16.5
Transportation ($/boe)	0.98	0.90	1.00	1.10	1.30
Operating ($/boe)	4.65	4.40	4.65	4.40	4.65
General & administrative ($/boe)	2.15	2.10	2.30	2.00	2.30
Capital expenditures[1] ($ million)	71.8	70.0	74.0	65.0	70.0

(1) Includes the acquisition of Sebring Energy Inc.

Overall Performance and Comparison of Selected Annual Information

$000s except where otherwise indicated	*Year Ended December 31* *2007*	*2006*	*Percent Change*
Petroleum and natural gas revenue[1]	**55,276**	44,900	23
Funds flow from operations	**34,842**	29,418	18
Per share basic ($)	**0.99**	0.93	6
Per share diluted ($)	**0.96**	0.87	10
Net earnings	**2,863**	4,675	(39)
Per share basic ($)	**0.08**	0.15	(47)
Per share diluted ($)	**0.08**	0.14	(43)
Total assets	**200,057**	158,012	27
Total long-term liabilities	**57,490**	28,937	99

(1) Includes realized gains on financial instruments.

Further details regarding the Company's 2007 results reported, including comparison to 2006 results and discussion of industry and economic factors affecting Cordero's performance is provided in subsequent sections of the MD&A, beginning with the caption "Acquisition Activities".

Selected Quarterly Information

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production								
Natural gas (MMcf/d)	**21.8**	22.4	21.3	20.1	18.2	18.7	17.5	16.8
Oil and natural gas liquids (bbls/d)	**104**	94	103	120	119	145	161	130
Barrels of oil equivalent (boe/d)	**3,736**	3,819	3,650	3,467	3,150	3,261	3,072	2,923
Financial ($000s except as indicated)								
Petroleum and natural gas revenue	**12,882**	11,449	14,288	14,097	11,693	10,811	10,521	11,874
Realized gain on financial instruments	**824**	1,194	472	69	-	-	-	-
Revenue net of royalties	**11,906**	11,009	12,564	12,239	9,999	9,117	9,150	9,600
Funds flow from operations	**8,351**	7,560	9,392	9,539	7,776	6,967	7,178	7,498
Per share basic ($)	**0.23**	0.21	0.28	0.28	0.23	0.21	0.24	0.25
Per share diluted ($)	**0.22**	0.20	0.26	0.27	0.22	0.20	0.22	0.23
Net earnings (loss)	**(767)**	367	1,234	2,029	1,884	762	105	1,924
Per share basic ($)	**(0.02)**	0.01	0.04	0.06	0.06	0.02	-	0.06
Per share diluted ($)	**(0.02)**	0.01	0.03	0.06	0.05	0.02	-	0.06
Total assets	**200,057**	200,842	175,720	162,558	158,012	135,797	128,962	120,045
Net capital expenditures(1)	**6,453**	9,522	20,411	15,977	24,323	14,348	14,207	32,659
Corporate acquisitions (2)	**54**	19,414	-	-	-	-	-	-
Net debt and working capital deficiency	**50,811**	52,507	48,820	38,086	31,684	25,074	17,536	29,296
Shares outstanding (000s)	**37,027**	37,027	34,079	33,861	33,823	32,623	32,623	29,725
Per unit information								
Natural gas(3) ($/Mcf)	**6.46**	5.83	7.29	7.46	6.58	5.68	5.92	7.37
Oil and natural gas liquids ($/bbl)	**78.44**	74.92	68.77	63.04	62.76	77.33	75.99	65.30
Oil equivalent ($/boe)	**39.88**	35.99	44.44	45.40	40.34	36.03	37.63	45.14
Operating expenses ($/boe)	**5.07**	4.93	4.38	4.14	3.78	3.36	3.27	3.80
Operating netback ($/boe)	**28.68**	25.63	32.58	33.68	29.58	25.94	28.31	31.51
Net wells drilled								
Natural gas	**3.8**	7.6	15.2	9.0	9.0	12.8	8.5	21.2
Oil	**-**	-	-	-	-	-	-	2.0
Dry	**-**	0.5	-	3.0	1.0	1.0	-	3.0
Total	**3.8**	8.1	15.2	12.0	10.0	13.8	8.5	26.2
Net success rate (%)	**100**	94	100	75	90	93	100	89

(1) *Does not include the acquisition of Sebring Energy Inc.*
(2) *Value of Sebring acquisition represents fair value of shares issued ($17.7 million) plus transaction costs of $0.9 million plus working capital obligations acquired ($0.8 million).*
(3) *Includes realized gains on derivative financial instruments.*

Acquisition Activities

On April 12, 2007 Cordero closed a $9.1 million asset acquisition in the Buffalo Lake area, adding approximately 0.84 MMboe of net proven plus probable reserves and over 25.5 net sections of land.

On July 20, 2007 the Company completed the acquisition of a private natural gas company, Sebring Energy Inc. (Sebring). Under the terms of the offer, Cordero acquired all of the outstanding shares of Sebring and issued approximately 3.0 million Cordero common shares to Sebring shareholders. The acquisition compliments Cordero's existing lands, facilities and development to the south of Buffalo Lake and includes approximately 1.6 MMboe of proven plus probable reserves and over 29,000 net undeveloped acres.

Production

	Three Months Ended December 31		Year Ended December 31	
	2007	2006	2007	2006
Natural gas (Mcf/d)	**21,787**	18,189	**21,380**	17,784
Oil and NGLs (bbls/d)	**104**	119	**105**	139
Total (boe/d)	**3,736**	3,150	**3,669**	3,103

Average daily production for the three months ended December 31, 2007 was 3,736 boe/d; an increase of 19% over the fourth quarter of 2006. Total 2007 production of 3,669 boe/d represents an 18% increase over the previous year. The production growth in the current year was largely due to the Company's development program in Bashaw but was also impacted by acquisition activities and offset by production declines.

Future production gains will be dependent on the success rate and timing of wells drilled and pipeline-connected in conjunction with the Company's exploration and development activities. Cordero currently has over 250 net drilling locations in the Malmo/Bashaw area and has been acquiring lands in east central Alberta with a goal of establishing a new lower-risk producing area. Additional factors which will affect future production will be the time required to place new wells on production, performance of new wells, transportation curtailments, access to gathering and processing facilities and recoveries on existing wells.

Petroleum & Natural Gas Revenue

	Three Months Ended December 31		Year Ended December 31	
($000s)	2007	2006	2007	2006
Natural gas	**12,129**	11,006	**49,988**	41,306
Oil and NGLs	**753**	687	**2,729**	3,594
Realized gain on derivative financial instruments	**824**	-	**2,559**	-
Total realized revenue	**13,706**	11,693	**55,276**	44,900

Prices and Marketing

	Three Months Ended December 31		Year Ended December 31	
Benchmark Prices	2007	2006	2007	2006
AECO natural gas ($/MMbtu)	**6.15**	6.99	**6.45**	6.40
WTI oil (USD$/bbl)	**90.68**	60.21	**72.31**	68.22
CDN/USD foreign exchange rate	**1.019**	0.878	**0.935**	0.883
WTI oil (CDN equivalent $/bbl)	**89.02**	68.60	**77.33**	77.26
Edmonton Light ($/bbl)	**86.42**	64.49	**76.35**	75.53

	Three Months Ended December 31		Year Ended December 31	
Realized Sales Prices	2007	2006	2007	2006
Natural gas ($/Mcf)	**6.05**	6.58	**6.41**	6.36
Realized gain on derivative financial instruments ($/Mcf)	**0.41**	-	**0.33**	-
Realized natural gas price	**6.46**	6.58	**6.74**	6.36
Oil and NGLs ($/bbl)	**78.44**	62.76	**70.95**	70.12
Total ($/boe)	**39.88**	40.34	**41.28**	39.65

Total realized revenue for the three months and year ended December 31, 2007 was $13.7 million and $55.3 million, respectively. This represents an increase of 17% for the quarter and 23% for the year compared to the applicable periods in 2006; attributable primarily to production growth and gains on financial instruments.

The Company's current production profile is weighted approximately 97% to natural gas therefore revenues are largely reliant on Canadian natural gas prices which are determined by North American supply and demand. Factors negatively affecting prices in Canada in 2007 included: high levels of natural gas storage in the U.S.; moderate temperatures in major natural gas market areas resulting in reduced consumption; increased liquefied natural gas (LNG) imports; and the continued strengthening of the Canadian dollar relative to the U.S. dollar. So far in 2008 the industry has witnessed a significantly different environment with tremendous pressure on the North American supply due to a cold winter, escalating oil prices and reduced LNG imports to the United States. As a result, despite the continuing near-parity between the Canadian and U.S. dollar, natural gas spot and future prices are currently more favorable than they were throughout 2007 however periodic imbalances between supply and demand for natural gas are common and can result in radical price fluctuations over a short period of time.

Management utilizes risk management activities to mitigate the risk of volatile fluctuations in the commodity price environment and guarantee a portion of the Company's cash flows. Approximately 27% of natural gas production for the three months ended December 31, 2007 was hedged and a summary of contracts currently outstanding is provided in notes 14 and 15 of the "Notes to Consolidated Financial Statements". Management continually monitors the natural gas price environment and if considered advantageous, may enter into additional pricing contracts. See note 2(f) of the "Notes to Consolidated Financial Statements" for a description of the accounting treatment of the Company's financial instruments.

Prices received for future production will be determined by the Company's marketing arrangements and overall commodity market conditions.

Royalties

Total Royalties

	Three Months Ended December 31		*Year Ended December 31*	
($000s)	*2007*	*2006*	*2007*	*2006*
Crown	**1,029**	823	**4,168**	4,470
Freehold and Gross Overriding Royalties (GORR)	**771**	996	**3,389**	3,075
Alberta Royalty Tax Credit (ARTC)	**-**	(125)	**-**	(513)
Total royalties	**1,800**	1,694	**7,557**	7,032

Royalty Rates

Percentage of Total Revenue				
Crown	**8.0**	7.0	**7.9**	10.0
Freehold and GORR	**6.0**	8.5	**6.4**	6.9
ARTC	**-**	(1.1)	**-**	(1.1)
Total	**14.0**	14.4	**14.3**	15.8

Royalty rates are calculated on petroleum and natural gas revenue excluding realized hedging gains. Including realized hedging gains, royalty rates were 13.1% and 13.7% for the three months and year ended December 31, 2007, respectively.

Crown royalties are calculated on a sliding scale based on the Alberta Reference Price and individual well production rates. The Alberta Reference Price for natural gas is influenced by North American market prices and for 2006 was approximately 6% higher than in 2007, resulting in a lower Crown royalty rate in 2007 compared to 2006. Cordero's 2007 fourth quarter Crown royalty rate was higher than the 7% reported in the same period of 2006 because a downward adjustment for gas cost allowance was recorded in the previous year.

Freehold royalties reported by the Company include both the royalties paid to landowners as well as the freehold mineral tax paid to the Alberta Crown. Royalties paid to landowners are determined by the revenue from applicable wells. Factors influencing the freehold rates for the current period are the number of producing wells on freehold lands and the revenue derived from those wells.

In 2006 the Alberta Government announced the elimination of ARTC effective January 1, 2007. The Company claimed the maximum ARTC of $0.5 million in 2006.

Factors which may determine royalty rates in subsequent periods include future reference prices relative to average wellhead prices, the type of royalties (Crown vs. freehold) applicable to future production and the Alberta Government's revised royalty framework initially announced to become effective in January 2009. The calculations performed by the Company's independent reserve engineers indicate that Cordero's net present value of proved plus probable reserves, discounted at 10%, is approximately 4.5% higher as a result of the proposed royalty regime.

Operating Expenses

($000s, except per boe)	*Three Months Ended December 31* 2007	2006	*Year Ended December 31* 2007	2006
Operating expenses (gross)	**1,953**	1,279	**7,108**	4,647
Processing income	**(210)**	(183)	**(885)**	(628)
Operating expenses (net, as reported)	**1,743**	1,096	**6,223**	4.019
Operating expenses per boe (net)	**5.07**	3.78	**4.65**	3.55

Maintaining optimal production levels requires more frequent maintenance and workovers as the Company's infrastructure and properties mature. Also affecting current and on-going operating costs is the acquisition of Sebring which had significantly higher operating expenses than Cordero. Utilizing the operating synergies between the two companies, management has endeavoured to realize cost reduction opportunities on these assets to the extent possible. The Company's overall operating expenses have increased from $3.78/boe in the fourth quarter of 2006 to $5.07 for the three months ended December 31, 2007 and from $3.55 in 2006 to $4.65 in 2007.

Processing income represents the recovery of processing costs incurred by third parties at Cordero's facilities. The amount of processing income is determined by the number of Cordero-owned facilities as well as the amount of applicable production volumes going through these facilities.

Future operating expenses will be influenced by the type of production additions, higher maintenance costs for equipment as it ages, the cost of field supplies and services, the Company's future operatorship over gathering and processing facilities and actual production volumes.

Transportation Expenses

	Three Months Ended December 31 2007	2006	*Year Ended December 31* 2007	2006
Transportation expenses - $000s	**307**	330	**1,306**	1,287
Transportation expenses - $/boe	**0.89**	1.14	**0.98**	1.14

Bringing behind-pipe volumes on production in a timely manner has a significant impact on the Company's growth plans. As a result, transportation contracts are entered into in anticipation of future production volumes, the consequences of which may be unutilized or under-utilized transportation and higher unit costs. To reduce costs, Cordero temporarily assigns volumes to a third party until the pipeline capacity is required for its own production. In 2007 a higher proportion of the Company's firm transportation was mitigated, resulting in cost reductions of 22% and 14% per boe for the three months and year ended December 31, 2007 compared to the respective periods in 2006.

Transportation expenses for the current period are not necessarily indicative of future costs and will depend on the type of production additions (oil versus natural gas), distance from wellhead to sales point, ownership of gathering and pipeline facilities and the amount of unutilized firm service contracted by the Company.

General and Administrative Expenses (G&A)

($000s, except per boe)	*Three Months Ended December 31* 2007	2006	*Year Ended December 31* 2007	2006
G&A expenses (gross)	**1,565**	1,225	**5,890**	5,487
Overhead recoveries	**(228)**	(321)	**(924)**	(1,284)
	1,337	904	**4,966**	4,203
Allocated to capital projects	**(598)**	(401)	**(2,081)**	(1,850)
G&A expenses	**739**	503	**2,885**	2,353
G&A expenses per boe	**2.15**	1.74	**2.15**	2.08

G&A expenses are reported net of overhead recoveries and amounts allocated to capital. Overhead recoveries are the allocation and recovery from partners of G&A expenses on Cordero-operated properties and correlate to actual capital expenditures in the reporting period. G&A expenses allocated to capital projects represent salaries and other costs directly associated with property acquisition, exploration and development activities.

Gross costs have increased with incremental employee compensation in 2007, a portion of which has been allocated to capital projects, and the implementation of the DSU plan for director compensation. As a result of reduced capital expenditures overhead recoveries have declined by approximately 28% for the fourth quarter and year ended 2007 compared to the respective periods in 2006.

Future G&A expenses per boe will be impacted by production volumes and the amount and type of capital expenditures.

Stock-Based Compensation

	Three Months Ended December 31		*Year Ended December 31*	
	2007	*2006*	*2007*	*2006*
Stock-based compensation expense - $000s	**457**	268	**1,943**	1,583
Stock-based compensation expenses - $/boe	**1.33**	0.92	**1.45**	1.40

Stock-based compensation expense represents the amortization of the aggregate fair value of options, performance warrants and performance shares over the applicable vesting period. The amount expensed is primarily determined by the number of stock-based securities granted as well as the vesting period and estimated fair value of those instruments. During the current year 1.7 million stock options were granted.

Depletion, Depreciation and Amortization (DD&A)

	Three Months Ended December 31		*Year Ended December 31*	
	2007	*2006*	*2007*	*2006*
Depletion, depreciation and amortization – $000s	**7,157**	4,884	**27,226**	18,871
Depletion, depreciation and amortization – $/boe	**20.82**	16.85	**20.33**	16.66

DD&A expense for 2007 compared to 2006 was 44% higher overall and 22% higher per boe, primarily due to higher cost proved reserve additions. The Company's depletable base contains a significant amount of field infrastructure which does not increase proved reserves but is necessary for current operations as well as future development plans. Excluded from the depletable base was $32.7 million related to unproved properties and $0.8 million of drilling supplies for future exploration and development. Costs subject to depletion included $62.1 million of estimated future development costs for proved reserves.

Cordero's DD&A expense in future periods will reflect finding, development and acquisition costs for proved reserves.

Accretion

	Three Months Ended December 31		*Year Ended December 31*	
	2007	*2006*	*2007*	*2006*
Accretion – $000s	**160**	96	**454**	336
Accretion – $/boe	**0.47**	0.33	**0.34**	0.30

Accretion of Cordero's asset retirement obligations is calculated at the Company's credit-adjusted, risk-free rates of 7.15% and 7.50%. Accretion expense reported will continue to increase each period as the obligation increases relative to additional wells that are drilled and facilities that are installed.

Net Interest

	Three Months Ended December 31		Year Ended December 31	
	2007	*2006*	*2007*	*2006*
Interest expense, net – $000s	**738**	294	**2,392**	851
Interest expense, net – $/boe	**2.15**	1.02	**1.79**	0.75

Net interest expense represents interest on the Company's credit facility and interest recorded for the three capital leases, less interest revenue earned. The amount of the expense is directly influenced by the Company's outstanding balance on its credit facility, which has increased from $20.9 million at December 31, 2006 to $45.9 million at December 31, 2007. The Company is constantly managing its outstanding debt, allocating as much as possible to Bankers Acceptance contracts which demand a lower interest rate.

Income Taxes

Presently the Company does not expect to pay current income tax until 2009 or later. This estimate is based on existing tax pools, planned capital activities and current forecasts of taxable income however, several factors can affect this prediction including commodity prices, future production, corporate expenses and both the type and amount of capital expenditures incurred in future reporting periods.

Pursuant to the flow-through share issuance completed in November 2006 the Company was committed to renounce $10.6 million of exploration expenses to investors by December 2007. When expenditures are renounced to shareholders the estimated tax effect of the amount renounced is charged to share capital with a corresponding increase in future income tax liabilities. The Company renounced these costs in February 2007 therefore the estimated tax effect was recorded in the Company's consolidated financial statements for the three months ended March 31, 2007. At December 31, 2007 the Company had met its $10.6 million commitment. The Company recorded $71,000 of current tax expense for the year ended December 31, 2007 which represents the amount paid (part 12.6 tax) to Canada Revenue Agency for expenditures renounced in 2007 under the look-back rule.

Estimated income tax pools available at January 1, 2008, are as follows:

	Annual Deduction Available (%)	*($000s)*
Canadian oil and gas property expenses	10	64.6
Canadian development expenses	30	41.9
Canadian exploration expenses	100	22.0
Undepreciated capital costs	25	45.1
Non-capital losses	100	5.4
Financing costs	20	2.1
Other	7	0.1
		181.2

Operating Netbacks by Product

The following tables summarize the Company's operating netbacks for natural gas, crude oil and NGLs.

	Three Months Ended December 31		Year Ended December 31	
Natural gas ($/Mcf)	*2007*	*2006*	*2007*	*2006*
Sales price (includes realized financial instrument gains)	**6.46**	6.58	**6.73**	6.36
Royalties	**(0.84)**	(0.93)	**(0.91)**	(0.95)
Transportation costs	**(0.15)**	(0.19)	**(0.16)**	(0.20)
Operating expenses	**(0.85)**	(0.62)	**(0.78)**	(0.58)
Operating netback – natural gas	**4.62**	4.84	**4.88**	4.63

Crude oil ($/bbl)	Three Months Ended December 31 2007	2006	Year Ended December 31 2007	2006
Sales price	**82.68**	63.96	**75.31**	72.36
Royalties	**(10.54)**	(12.65)	**(10.66)**	(16.89)
Transportation costs	**(1.28)**	(1.11)	**(1.26)**	(1.13)
Operating expenses	**(7.25)**	(9.06)	**(9.30)**	(5.55)
Operating netback – crude oil	**63.61**	41.14	**54.09**	48.79

NGLs ($/bbl)	Three Months Ended December 31 2007	2006	Year Ended December 31 2007	2006
Sales price	**66.83**	51.79	**59.16**	55.54
Royalties	**(12.97)**	(9.92)	**(12.74)**	(12.95)
Transportation costs	**(1.36)**	(1.49)	**(1.38)**	(1.94)
Operating expenses	**(4.68)**	(7.43)	**(5.48)**	(7.20)
Operating netback – NGLs	**47.82**	32.95	**39.56**	33.95

For wells that produce more than one commodity, revenues and costs are allocated based on the relative production volumes.

Net Earnings and Netbacks

The Company's overall operating and corporate netbacks are as follows:

Total Netback ($/boe)	Three Months Ended December 31 2007	2006	Year Ended December 31 2007	2006
Sales price (including realized financial instrument gains)	**39.88**	40.34	**41.28**	39.65
Royalties	**(5.24)**	(5.84)	**(5.64)**	(6.21)
Transportation costs	**(0.89)**	(1.14)	**(0.98)**	(1.14)
Operating expenses	**(5.07)**	(3.78)	**(4.65)**	(3.55)
Operating netback	**28.68**	29.58	**30.01**	28.75
G&A	**(2.15)**	(1.74)	**(2.15)**	(2.08)
Interest (net)	**(2.15)**	(1.02)	**(1.79)**	(0.75)
Current income taxes	**(0.08)**	-	**(0.05)**	0.05
Cash netback	**24.30**	26.82	**26.02**	25.97
Unrealized gain (loss) on financial instruments	**(1.01)**	-	**0.41**	-
Stock-based compensation expense	**(1.33)**	(0.92)	**(1.45)**	(1.40)
DD&A expense	**(20.82)**	(16.85)	**(20.33)**	(16.66)
Accretion	**(0.47)**	(0.33)	**(0.34)**	(0.30)
Future income tax expense	**(2.90)**	(2.22)	**(2.17)**	(3.49)
Total Netback	**(2.23)**	6.50	**2.14**	4.12

For the three months ended December 31, 2007 the Company reported a net loss of $0.7 million compared to earnings of $1.9 million in the fourth quarter of 2006. The primary factors in this variance include higher operating expenses, higher interest costs and higher DD&A expenses in 2007 compared to 2006.

Annual earnings of $2.9 million in 2007 were $1.8 million less than earnings for 2006. Although the operating netback for 2007 was higher the results were negatively impacted by higher interest costs and DD&A expense.

Capital Expenditures

($000s)	Three Months Ended December 31 2007	2006	Year Ended December 31 2007	2006
Land and lease retention	**528**	6,364	**4,277**	15,985
Geological and geophysical	**213**	294	**334**	2,907
Drilling and completions	**3,029**	7,849	**28,097**	40,923
Facilities and equipment	**1,814**	9,228	**8,412**	25,321
Property acquisitions (cash)	**-**	-	**9,129**	-
Other	**869**	588	**3,114**	2,700
Total capital expenditures	**6,453**	24,323	**53,363**	87,836
Dispositions	**-**	-	**(1,000)**	(2,298)
Net capital expenditures	**6,453**	24,323	**52,363**	85,538
Corporate acquisition(1)	**54**	-	**19,468**	-
Total net capital expenditures	**6,507**	24,323	**71,831**	85,538

(1) Value of Sebring acquisition represents fair value of shares issued ($17.7 million) plus transaction costs of $0.9 million plus working capital obligations acquired ($0.8 million)

The Company's capital program in the fourth quarter of 2007 consisted of drilling 6 (3.8 net) wells, extensive recompletion work on existing wells and equipping costs related primarily to the continuing development of the Malmo/Bashaw area. Three of the wells were drilled in Bashaw and three in Trutch, British Columbia. Of the three exploration wells, the first has been completed with tie-in plans pending pressure build-up analysis. The second and third wells have been cased and are currently being evaluated.

Liquidity and Capital Resources

In April the Company's credit facility was increased from $55.0 million to $70.0 million. The facility revolves at Cordero's option until May 30, 2008 and at this time the Company may request a renewal or the loan will convert to a 366-day term loan.

Pursuant to the flow-share issuance completed in November 2006 the Company entered a commitment to renounce $10.6 million of exploration expenses to investors by December 2007. The entire commitment has been met.

The nature of the oil and gas industry requires significant cash outlays to fund capital programs necessary to maintain and increase production and proved developed reserves and to acquire strategic oil and gas assets. Cordero expects to finance its 2008 capital program and all other commitments through a combination of internally generated cash flow and debt. Funding alternatives ultimately chosen by the Company will be influenced by the capital market environment for equity, the cost of debt and the nature and amount of actual expenditures being incurred.

Cordero's net debt and working capital deficiency has decreased from $52.5 million at September 30, 2007 to $50.8 million at December 31, 2007. The working capital deficiency is a result of normal operating conditions in periods when the Company incurs significant capital expenditures relative to revenue.

In the normal course of operations the Company has entered into contracts and incurred obligations that will impact future liquidity. Based on current cash flow forecasts Cordero expects to fulfil its principal contractual obligations as summarized in the table below.

($000s)	Total	<1 Year	1-3 Years	4-5 Years	After 5 Years
Operating lease obligations (office space)	363	334	29	-	-
Transportation obligations	4,110	1,675	1,705	180	550
Capital lease obligations	3,840	604	1,108	975	1,153
Total contractual obligations	8,313	2,613	2,842	1,155	1,703

Outstanding Shares, Options and Warrants

Outstanding at period-end (000s)	***March 3, 2008***	***December 31, 2007***
Common shares	37,027	37,027
Common shares issuable on conversion:		
Stock options	2,870	2,870
Performance warrants	1,786	1,786
Performance shares	188	188
Total	41,871	41,871

Share Trading Information

	2007	***2006***
Trading volume (000s)	23,434	16,063
Daily average (000s)	93	64
Trading value ($000s)	110,552	106,638
Share price ($/share)		
High	6.60	7.70
Low	2.60	5.50
Average	4.72	6.64
Market capitalization – at December 31		
Shares outstanding (000s)	37,027	33,823
Year end share price ($/share)	3.26	6.83
Total ($000s)	120,710	231,011

Risk Factors

Industry conditions relevant to the risk factors identified by the Company are discussed in Cordero's 2007 Renewal Annual Information Form which will be filed prior to March 14, 2008.

Exploration, Development and Production Risks

The long-term success of Cordero will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that Cordero will be able to locate satisfactory properties for acquisition or participation or that the Corporation's expenditures on future exploration will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to accurately project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. If acquisitions or participations are identified, Cordero may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion, pipeline, facilities and operating costs. In addition, drilling hazards and/or environmental damage could greatly increase the costs of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation and gathering capacity or other geological and mechanical conditions. As well, approved activities may be subject to limited access windows for various reasons which may subject projects to significant delays. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The nature of oil and gas operations exposes Cordero to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Coalbed Methane (CBM)

CBM development in Canada is currently in the early stages and, as a result, the future of CBM in Alberta is not certain. Each coalbed basin in the world has proved to have its own unique set of risks and challenges. For Cordero, the lack of industry-wide production history within the Horseshoe Canyon formation, where Cordero's interests lie, is the most significant challenge. Although Cordero's knowledge of these reservoirs is increasing constantly, full commercial development requires a significant capital commitment and the production profile for the zones that Cordero is producing from is still uncertain. Other risks include uncertainty of title to coalbed gas and environmental issues, specifically public and landowner concerns related to water production, ground water contamination, well density, and noise. Cordero has performed the necessary legal procedures to obtain certification of its rights to the natural gas produced from its CBM landholdings and endeavors to minimize surface disturbance and noise through directional drilling and effective alignment of roads, pipelines and facilities. The Corporation does not anticipate a significant amount of water production with its CBM production; however, to the extent that it is required, there are numerous conservational water disposal options such as treating and sub-surface disposal. Well spacing will be dependent on regulatory approval, drilling and well completion methodology, access restrictions and economics.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Prices received and marketability of oil and natural gas (including CBM) acquired or discovered by the Company are determined by factors beyond Cordero's control. As the Company's production profile is predominantly natural gas, revenues are largely determined by the AECO Hub in Alberta which is influenced by several factors including North American supply and demand balance, weather conditions, storage levels, and transportation, gathering and processing capacity constraints. Periodic imbalances between supply and demand for natural gas are common and can result in volatile pricing. Factors affecting prices in Canada in 2007 included: high levels of natural gas storage in the U.S.; moderate temperatures in major natural gas market areas resulting in reduced consumption; increased liquefied natural gas (LNG) imports; and the continued strengthening of the Canadian dollar relative to the U.S. dollar. Any material declines in prices could result in a reduction of net production revenue.

Cordero's revenue may also be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by Cordero. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of Cordero's oil and gas reserves. The Corporation may choose not to produce from certain wells at lower prices.

All of these factors could result in a material decrease in Cordero's future net production revenue causing a reduction in its exploration, acquisition and development activities. In addition, bank borrowings available to Cordero are expected to be determined in part by the borrowing base of the Company. A sustained material decline in prices from historical average prices could limit the Corporation's borrowing base, therefore reducing the bank credit available to Cordero and perhaps requiring that a portion of any existing bank debt of Cordero be repaid.

To earn production revenue, Cordero must establish markets for its oil and natural gas and successfully market its production to prospective buyers. The ability of Cordero to market its natural gas may depend upon its ability to acquire space in processing facilities as well as gathering systems and pipelines which deliver natural gas to commercial markets. Cordero will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities as well as operational problems with such pipelines and facilities and extensive government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Competition

The oil and natural gas industry is very competitive for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel. Specific to Cordero's operations is the intense competition for land in the narrow and prolific Horseshoe Canyon fairway. Drilling rigs, service rigs and compression equipment are critical to maintaining the Company's exploration and development plan and, during periods of high industry activity, Cordero may not have access to the equipment required or qualified individuals to operate or install the equipment. Many of Cordero's competitors have significantly greater financial resources than Cordero and include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

Certain of Cordero's customers and potential customers are themselves exploring for oil and natural gas and the results of such exploration efforts could affect the Corporation's ability to sell or supply oil or gas to these customers in the future. Cordero's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Reserve Replacement
Cordero's future oil and natural gas reserves, production and cash flows to be derived therefrom are highly dependent on Cordero successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves Cordero may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. There can be no assurance that Cordero's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Capital Requirements and Financial Resources
Cordero anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. For growth-oriented oil and gas companies, such expenditures are typically well in excess of available cash flow from operations, requiring financing from incremental debt, equity sources or from the sale of properties. If Cordero's revenues or reserves decline, Cordero may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these capital or other corporate requirements or, if debt or equity financing is available, that it will be on terms acceptable to Cordero. Furthermore, future activities may require Cordero to alter its capitalization significantly. The inability of Cordero to access sufficient capital for its operations could have a material adverse effect on Cordero's financial condition, results of operations or prospects.

Cordero's lenders have been provided with security over substantially all of the assets of the Corporation. If Cordero becomes unable to pay its debt service charges or otherwise commits an event of default, these lenders may foreclose on or sell Cordero's properties. The proceeds of any such sale would first go to satisfy amounts owed to Cordero's lenders and only the remainder would be available to the Corporation.

Acquisitions
Cordero may enter into transactions to acquire assets or the share of other corporations. These activities and transactions may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Neither Cordero's articles nor its by-laws limit the amount of indebtedness that Cordero may incur. The level of Cordero's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise, resulting in missed acquisition opportunities and reduced or terminated operations.

Assessment of Value of Acquisitions
Acquisitions of oil and gas issuers and oil and gas assets are typically based on engineering and economic assessments made by independent engineers and the Company's own assessments. These evaluations will include a series of assumptions regarding such factors as recoverability and marketability of oil and gas, future prices of oil and gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond Cordero's control. In particular, the prices of and markets for oil and natural gas products may change from those anticipated at the time of making such assessment. In addition, all such assessments involve a measure of geologic and engineering uncertainty which could result in lower production and reserves than anticipated. Initial assessments of acquisitions may be based on reports by a firm of independent engineers that are not the same as the firm that Cordero uses for its year-end reserve evaluations. Because each of these firms may have different evaluation methods and approaches, these initial assessments may differ significantly from the assessments of the firm used by Cordero. Any such instance may offset the return on and value of the Cordero common shares.

Insurance
Cordero's involvement in the exploration for and development of oil and gas properties may expose the Corporation to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Cordero has obtained insurance to address such risks, such policies have limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, Cordero may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Cordero. The occurrence of a significant event that Cordero is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Cordero's financial position, results of operations or prospects.

Environmental Risks
All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance

with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require Cordero to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Cordero's financial condition, results of operations or prospects.

Currently, CBM operations are subject to the same provincial and federal wildlife and environmental laws as conventional land gas operations, as well as additional CBM-specific regulations in Alberta and British Columbia. As CBM development grows in Canada, Cordero's future operations will likely be governed by more CBM-specific federal and provincial regulations.

Canada is currently a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder. Canada, as an Annex B party to the Kyoto Protocol, is required to establish legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gasses". The Government of Canada has announced its intention to regulate greenhouse gasses (GHG) and other air pollutants and is currently developing a framework that outlines its clean air and climate change action plan, including targets to reduce GHG emissions and a commitment to regulate industry on an emissions intensity basis for several years. Currently there are few technical details regarding the implementation of the Government's plan to regulate industrial GHG emissions, but the Government has made a commitment to work with industry to develop the specifics. Cordero's exploration and production facilities and other operations and activities emit GHGs which may subject Cordero to legislation in Canada regulating emissions of GHGs. It is not possible to predict the impact of the potential regulations on the Company's business or the manner in which political factors may influence their ultimate implementation. However, implementation of strategies for reducing GHG emissions, whether to meet the limits required by Kyoto, or as otherwise determined, together with provincial emission reduction requirements, such as those contained in the Climate Change and Emissions Management Act (Alberta), may require the reduction of emissions or emissions intensity from Cordero's operations and facilities. The direct and indirect costs of complying with these emission regulations may adversely affect the business of Cordero.

Reliance on Operators and Key Employees

To the extent Cordero is not the operator of its oil and gas properties, Cordero will be dependent on such operators for the timing of activities and administration related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of Cordero will be largely dependent upon the performance of its management and key employees. Cordero does not have any key man insurance policies and, therefore, there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on Cordero.

Delays in Business Operations

In addition to the usual delays in payments by purchasers of oil and natural gas to Cordero or to the operators, and the delays by operators in remitting payment to Cordero, payments between these parties may be delayed due to restrictions imposed by lenders, accounting delays, delays in the sale or delivery of products and services, delays in the connection of wells to a gathering system, adjustment for prior periods, or recovery by the operator of expenses incurred in the operation of the properties. Any of these delays could reduce the amount of cash flow available for the business of Cordero in a given period and expose Cordero to additional third party credit risks.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. As well, environmental legislation limits the ability to perform construction activities when ground conditions are considered unsuitable. Also, certain oil and gas producing properties are located in areas that are inaccessible during non-winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of Cordero.

Permits and Licenses

The operations of Cordero may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Title to Properties
Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of Cordero which could result in a reduction of Cordero's revenue.

Aboriginal Claims
Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. Cordero is not aware that any claims have been made in respect of the Corporation's properties; however, if a claim arose and was successful, it could have an adverse effect on Cordero and its operations.

Changes in Legislation
The return on an investment in securities of Cordero is subject to changes in Canadian federal and provincial tax laws and government incentive programs and there can be no assurance that such laws or programs will not be changed in a manner that adversely affects Cordero or the holding and disposing of securities of Cordero. In October 2007 the Alberta Government announced proposed amendments to the provincial Crown royalty regime. The estimated effective date of the new royalty structure is January 1, 2009 however neither the extent of the changes nor the timing of implementation are certain at this time.

Corporate Matters
Cordero does not anticipate the payment of any dividends on the Cordero common shares for the foreseeable future. Certain of the directors and officers of Cordero are also directors and officers of other oil and gas companies involved in natural resource exploration and development and conflicts of interest may arise between their duties as officers and directors of Cordero and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as applicable under the Alberta Business Corporations Act.

In accordance with applicable securities regulations, management has evaluated the design and effectiveness of the Company's disclosure controls and procedures as well as the design of internal controls over financial reporting. Based on the results of the work performed the Chief Executive Officer and Chief Financial Officer provided the required certifications however, internal controls no matter how well designed, have inherent limitations. Therefore internal controls over financial reporting and disclosure controls and procedures can provide only reasonable assurance with respect to financial statement preparation and disclosures and may not prevent or detect all misstatements or omissions of information. Further details are provided under "Internal Controls Over Financial Reporting and Disclosure Controls and Procedures".

Dilution
Cordero may make future acquisitions or enter into financing or other transactions involving the issuance of securities of Cordero which may be dilutive.

Third Party Credit Risk
Cordero is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to Cordero, such failures could have a material adverse effect on Cordero and its cash flows.

Income Taxes
The Corporation will file all required income tax returns and believes that it is, and will continue to be in full compliance with the provisions of the *Income Tax Act* (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of Cordero, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Critical Accounting Estimates

Management makes certain judgments and estimates in preparing financial statements in accordance with Canadian GAAP. Changes to these judgments and estimates could have a material effect on Cordero's financial statements and financial position.

Proved Petroleum and Natural Gas Reserves
Proved reserves, the estimated quantities of natural gas, crude oil and natural gas liquids that can be recovered in future years under future economic and operating conditions, are critical to many aspects of the Company's financial statements. These estimates are made with reasonable certainty using all available geological and reservoir data as well as historical production data and are subject to revisions based on changes in reservoir performance and the pricing environment.

Depletion Expense
In accordance with the full cost method of accounting for exploration and development activities, all costs associated with exploration and development are capitalized, whether successful or not. The aggregate of capitalized costs and future development costs, net of costs related to unproved properties, is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depletion expense.

Certain costs related to unproved properties may be excluded from costs subject to depletion until proved reserves have been determined or their value impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned or if impairment exists.

Full Cost Accounting Ceiling Test
The Company reviews the carrying value of all petroleum and natural gas assets for potential impairment on a quarterly basis. Impairment is indicated if the carrying value of the assets is not recoverable by the future undiscounted cash flows. This impairment test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. If impairment exists, the amount by which the carrying value exceeds the estimated fair value of the assets will be charged to earnings.

Asset Retirement Obligations
The provision for asset retirement obligations is estimated based on costs to abandon and reclaim wells and facilities, timing of abandonment and reclamation of wells and facilities, and inflation and discount rates over the life of the reserves. Changes to any assumptions used in the calculation will have an impact on the provision and the accretion expense included in earnings.

Stock-based Compensation Expense
Compensation costs attributable to stock options, performance warrants and performance shares granted by the Company are charged to earnings over the vesting period of the securities. The fair value calculation method adopted by the Company is the Black-Scholes model, which requires management to estimate the expected life of the securities and the expected volatility of Cordero's share price over the life of the options, performance warrants and performance shares. These estimates may be different than the actual life and volatility.

Income Taxes
The determination of the Company's income tax liabilities requires interpretation of complex laws and regulations and all tax filings are subject to audit and potential reassessment. Future income tax expense is calculated using tax rates based on the estimated timing of reversal of temporary differences between accounting and tax values of certain assets and liabilities. The actual current and future tax expenses recorded may differ from those actually incurred.

Future Accounting Standards Changes

Capital Disclosures
In December 2006 the Canadian Institute of Chartered Accountants (CICA) issued Section 1535 *Capital Disclosures* which requires companies to disclose their objectives, policies and processes for managing capital as well as compliance with any externally imposed capital requirements. This Section will be adopted by the Company on January 1, 2008.

Financial Instrument Disclosure and Presentation
The CICA issued Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Disclosure and Presentation* in December of 2006. These disclosure standards require entities to provide information that enable users to evaluate: 1) the significance of financial instruments for the entity's financial position and performance; and 2) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. These newly-issued presentation standards pertain to the classification of financial instruments between liabilities and equity, the classification of related interest, dividends, losses and gains and the circumstances in which financial assets and financial liabilities are offset. These standards will be adopted by the Company on January 1, 2008.

International Financial Reporting Standards
In January 2006 the CICA Accounting Standards Board (AcSB) adopted a strategic plan for accounting standards in Canada and under the current plan, accounting standards for public companies in Canada are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor the developments in regards to the AcSB's plan and has not yet assessed the impact of these prospective changes.

Internal Controls Over Financial Reporting and Disclosure Controls and Procedures

Management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2007, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in its filings or other reports filed or submitted under applicable securities laws is:

1) recorded, processed, summarized and reported within the applicable legislated time periods; and

2) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

There were no changes to disclosure controls and procedures for the quarter or year ended December 31, 2007.

Management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the design of the Company's internal controls over financial reporting. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2007, the Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that:

1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the Company's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the Company; and

3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements.

Internal controls over financial reporting and disclosure controls and procedures, no matter how well designed, have inherent limitations. Therefore, internal control over financial reporting and disclosure controls and procedures can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements or omissions of information. Due to the small size of the Company, management acknowledges there is lack of segregation of duties within several of the Company's processes. Management has identified the specific functions with the potential to compromise the Company's overall control objectives as outlined above. In response to the identified risks, appropriate compensating controls have been implemented to management's satisfaction.

There were no changes in the Company's internal control over financial reporting during the quarter or year ended December 31, 2007 that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

FOR FURTHER INFORMATION PLEASE CONTACT:

David V. Elgie
President and Chief Executive Officer

C. Dean Setoguchi
Vice President and Chief Financial Officer

Cordero Energy Inc.
Telephone: 403-265-7006
Toll Free: 1-888-266-6608

Email: info@corderoenergy.com
Website: www.corderoenergy.com

Additional information about Cordero is available on the Canadian Securities Administrators' System for Electronic Distribution and Retrieval (SEDAR) at www.sedar.com.

APPENDIX B
Audited Financial Statements and Notes as at and for the Year Ended December 31, 2007

Management's Report

Management has prepared the accompanying consolidated financial statements of Cordero Energy Inc. in accordance with Canadian Generally Accepted Accounting Principles. Financial and operating information presented throughout the annual report and annual information form is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial information. Where necessary, the financial statements include estimates that are based on management's informed judgments. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and reliable accounting records are produced for financial reporting purposes.

Deloitte & Touche LLP were appointed by the Company's shareholders to perform an examination of the corporate and accounting records so as to express an opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are presented fairly in accordance with Canadian Generally Accepted Accounting Principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. It exercises its responsibilities primarily through the Audit and Finance Committee, which is composed of non-management directors. The Committee meets quarterly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend that the consolidated financial statements be presented to the Board of Directors for approval.

The Audit and Finance Committee has reviewed the consolidated financial statements and recommended their acceptance to the Board of Directors. The Board has approved the consolidated financial statements for issuance to the shareholders.

"Signed"

David V. Elgie
President and Chief Executive Officer
February 15, 2008

"Signed"

C. Dean Setoguchi
Vice President and Chief Financial Officer
February 15, 2008

Auditors' Report

To the Shareholders of Cordero Energy Inc.:

We have audited the consolidated balance sheets of Cordero Energy Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Cordero Energy Inc. as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
February 15, 2008

(Signed) "Deloitte & Touche LLP"
Chartered Accountants

Consolidated Balance Sheets

As at December 31 ($000s)	*2007*	*2006*
Assets		
Current		
Accounts receivable	**7,473**	8,594
	7,473	8,594
Derivative financial instruments (note 14)	**553**	-
Petroleum and natural gas interests (note 5)	**191,966**	142,343
Future income tax asset (note 12)	**65**	7,075
	200,057	158,012
Liabilities		
Current		
Accounts payable and accrued liabilities	**9,173**	15,787
Current portion of obligations under capital leases (note 7)	**445**	456
	9,618	16,243
Long-term credit facility (note 6)	**45,944**	20,868
Obligations under capital leases (note 7)	**2,722**	3,167
Asset retirement obligations (note 8)	**8,824**	4,902
Shareholders' equity		
Share capital (notes 9 and 10)	**116,852**	101,195
Contributed surplus (note 9)	**4,033**	2,436
Retained earnings	**12,064**	9,201
	132,949	112,832
	200,057	158,012

See accompanying notes.

On behalf of the Board

"Signed" *"Signed"*

S. Barry Jackson
Director

Donald P. Driscoll
Director

Consolidated Statements of Operations and Comprehensive Income

For the years ended December 31 *($000s, except per share amounts)*	*2007*	*2006*
Revenue		
Oil and natural gas revenue	**52,717**	44,900
Royalties	**(7,557)**	(7,032)
Gain on derivative financial instruments	**3,112**	-
	48,272	37,868
Expenses		
Operating	**6,223**	4,019
Transportation	**1,306**	1,287
General and administrative	**2,885**	2,353
Interest, net (notes 6 and 7)	**2,392**	851
Depletion, depreciation and amortization (note 5)	**27,226**	18,871
Accretion (note 8)	**454**	336
Stock-based compensation (note 10)	**1,943**	1,583
	42,429	29,300
Earnings before income taxes	**5,843**	8,568
Income taxes (note 12)		
Current income taxes (recovery)	**71**	(60)
Future income taxes	**2,909**	3,953
	2,980	3,893
Net earnings and comprehensive income	**2,863**	4,675
Net earnings per share (note 11)		
Basic	**0.08**	0.15
Diluted	**0.08**	0.14

Consolidated Statements of Retained Earnings

For the years ended December 31 *($000s)*	*2007*	*2006*
Retained earnings beginning of year	**9,201**	4,526
Earnings for year	**2,863**	4,675
Retained earnings, end of year	**12,064**	9,201

See accompanying notes.

Consolidated Statements of Cash Flows

For the years ended December 31 *($000s)*	*2007*	*2006*
Cash flows from the following:		
Operating activities		
Net earnings	**2,863**	4,675
Items not affecting cash		
Depletion, depreciation and amortization	**27,226**	18,871
Accretion	**454**	336
Future income taxes	**2,909**	3,953
Stock-based compensation	**1,943**	1,583
Unrealized portion of gain on derivative financial instruments	**(553)**	-
Asset retirement obligation expenditures (note 8)	**(291)**	(182)
Changes in non-cash working capital (note 13)	**321**	(206)
	34,872	29,030
Financing activities		
Issue of common shares and performance shares	**454**	30,498
Share issue costs	**(22)**	(1,811)
Increase in bank indebtedness (note 6)	**25,076**	20,868
Repayment of capital lease obligations (note 7)	**(456)**	(446)
	25,052	49,109
Investing activities		
Petroleum and natural gas expenditures	**(53,363)**	(87,836)
Corporate acquisitions	**(1,747)**	-
Disposition of petroleum and natural gas interests	**1,000**	2,298
Changes in non-cash working capital (note 13)	**(5,814)**	(3,628)
	(59,924)	(89,166)
Decrease in cash and cash equivalents	**-**	(11,027)
Cash and cash equivalents, beginning of year	**-**	11,027
Cash and cash equivalents, end of year	**-**	-

See accompanying notes.

Notes to Consolidated Financial Statements

For the year ended December 31, 2007 (tabular amounts in thousands of dollars, except share and per share data):

1. Description of Business

Cordero Energy Inc. ("Cordero" or "the Company") is an independent exploration and development company pursuing conventional oil and natural gas production and reserves as well as coalbed methane development in western Canada. Cordero is based in Calgary, Alberta and was incorporated under the Business Corporations Act (Alberta) on March 30, 2005. The Company commenced operations on April 30, 2005 when certain oil and gas properties of Resolute Energy Inc. (Resolute) were transferred to Cordero under a plan of arrangement.

2. Significant Accounting Policies and Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Cordero Finance Corporation which has no material assets or operations. All inter-company transactions and accounts have been eliminated. The consolidated financial statements are presented in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and are expressed in Canadian dollars.

(a) *Joint Venture Activities*
A portion of the Company's exploration, development and production activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

(b) *Cash and Cash Equivalents*
Cash includes cash on deposit and short-term investments with an initial maturity of 90 days or less at the time of issue.

(c) *Petroleum and Natural Gas Interests*
The Company follows the full cost method of accounting for petroleum and natural gas interests whereby all costs relating to acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized in one cost centre. Such costs include land acquisition costs, geological and geophysical expenses, costs of drilling both productive and non-productive wells and tangible equipment, asset retirement costs and administrative costs directly related to acquisition, exploration and development activities. Proceeds from the disposition of oil and natural gas properties are accounted for as a reduction of capitalized costs, with no recognition of a gain or loss, unless the disposition would result in a 20% or greater change in the depletion rate.

Depletion and Depreciation
Petroleum and natural gas interests, including assets under capital lease, are depleted or depreciated using the unit-of-production method based on an independent engineering estimate of the Company's share of proved reserves, before royalties, with natural gas converted to its energy equivalent at a ratio of six thousand cubic feet of natural gas to one barrel of oil. Included in the depletion base are estimated future costs to be incurred in developing proved reserves and, excluded are estimated salvage values and costs incurred acquiring and evaluating unproved properties.

Impairment
Petroleum and natural gas interests are evaluated at the end of each calendar quarter to determine whether the carrying amount exceeds the fair value of the properties. The carrying amount is not impaired if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties, less impairment exceeds the carrying amount. If the carrying value is assessed as impaired, an impairment loss is recognized to the extent that the carrying value of assets exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using expected future product prices and costs, discounted using a risk-free interest rate.

(d) *Asset Retirement Obligations*

The Company recognizes asset retirement obligations for the future costs associated with removal, abandonment and reclamation costs for all wells and facilities. The fair value of the liability for asset retirement obligations is recorded in the period in which it is incurred, with a corresponding increase to the carrying amount of the related asset. The estimated future costs are discounted to their present value using the Company's credit-adjusted risk-free interest rate. The asset recorded is deleted on a unit of production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the accretion is charged to earnings in the period. Actual expenditures incurred are charged against the obligations.

(e) *Revenue Recognition*

Revenue from the sale of petroleum and natural gas is recognized when the title passes to a third party.

(f) *Financial Instruments*

All financial instruments are included on the Company's balance sheet at fair value with changes in fair value charged to earnings. The Company's financial instruments consist of accounts receivable, accounts payable, long term debt and derivative financial instruments used to manage the Company's exposure to fluctuations in natural gas prices. The Company has elected not to apply hedge accounting to its financial instruments.

There are no significant differences between the carrying value and estimated fair value of the Company's financial instruments based on the short term to maturity of the financial instruments, except for long-term debt which has floating rates of interest ad carrying value approximates fair value as a result.

(g) *Stock-Based Compensation Plans*

The Company applies the fair value method to account for its stock-based compensation plans described in note 10. Under this method, compensation cost attributable to stock options, performance warrants and performance shares granted to officers, directors and employees is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Consideration paid upon the exercise of stock options, performance warrants or performance shares, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to share capital. In the event that vested options or warrants expire without being exercised, previously recognized compensation costs associated with such stock options are not reversed.

(h) *Accounting for Leases*

The Company's leases are classified as either capital or operating. Assets under capital lease are initially recorded at the present value of the minimum lease payments at inception of the lease, with a corresponding increase to petroleum and natural gas interests. Payments under operating leases are expensed as incurred.

(i) *Income Taxes*

The Company follows the asset and liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

(j) *Flow-through Shares*

In accordance with Canadian tax legislation, deductions for income tax purposes related to activities funded by flow-through share arrangements are renounced to investors. When the expenditures are renounced to shareholders the estimated tax effect of the amounts renounced is charged to share capital with a corresponding increase in future income tax liabilities.

(k) *Earnings per Share*

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method which assumes that any proceeds received by the Company upon the exercise of in-the-money stock options, performance warrants and performance shares, plus unamortized stock compensation costs, would be used to buy back common shares at the average market price for the period.

(l) *Measurement Uncertainty*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

The amounts recorded for depletion and deprecation of petroleum and natural gas interests and for asset retirement obligations are based on estimates of petroleum and natural gas reserves and future costs. Proved reserves also provide the basis for determining whether the carrying value of petroleum and natural gas interests is impaired. The determination of stock-based compensation involves estimates of the volatility of the Company's common shares for future rates and expected life. Future income tax expense is calculated using tax rates based on the estimated timing of reversal of temporary differences between accounting and tax values of certain assets and liabilities and involves forecasting the amount of the future income tax asset that will be realized. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

3. Changes in Accounting Policies

Accounting Policies Adopted January 1, 2007

Financial Instrument and Hedging Activities

Effective January 1, 2007 the Company adopted the following new Canadian Institute of Chartered Accountants (CICA) sections:

- Section 1530, *Comprehensive Income;*
- Section 3251, *Equity*;
- Section 3855, *Financial Instruments – Recognition and Measurement*; and
- Section 3865, *Hedges*.

These new accounting standards provide requirements for the recognition and measurement of financial instruments and the use of hedge accounting. The standards have been adopted prospectively and as such the comparative consolidated financial statements have not been restated. The adoption of these Handbook sections had no impact on opening retained earnings or accumulated other comprehensive income.

Comprehensive Income

Section 1530 establishes standards for reporting and presenting comprehensive income and other comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources and other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with generally accepted accounting principles, are recognized in comprehensive income but excluded from net income.

Financial Instruments – Recognition and Measurement

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. All financial instruments must be classified as one of the following five categories: held-for-trading; held-to-maturity instruments; loans and receivables; available-for-sale financial assets; or other financial liabilities. All financial instruments, with the exception of loans and receivables, held-to-maturity investments and other financial liabilities measured at amortized cost, are reported on the balance sheet at fair value. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in earnings.

Derivatives

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless they qualify for the normal sale and purchase exemption. All changes in fair value are included in earnings unless cash flow hedge or net investment accounting is used, in which case changes in fair value are recorded in other comprehensive income, to the extent the hedge is effective, and in earnings, to the extent it is ineffective.

Hedge Accounting

Section 3865 establishes standards for when and how hedge accounting may be applied, which continues to be optional. At inception of the hedge, designation of the hedge, the risk management objectives, the hedging relationships between the hedged items and the hedging items and the methods for testing the effectiveness of the hedge must be formally documented. The Company has not elected to use hedge accounting.

Accounting Changes

Effective January 1, 2007 the Company adopted the revised recommendations of CICA section 1506, *Accounting Changes* which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the revised standards, voluntary changes in accounting polices are permitted only when required by a primary source of GAAP or the changes result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless otherwise permitted or it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. These standards are effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

Future Accounting Standards Changes

Capital Disclosures

In December 2006 the Canadian Institute of Chartered Accountants (CICA) issued Section 1535 *Capital Disclosures* which requires companies to disclose their objectives, policies and processes for managing capital as well as compliance with any externally imposed capital requirements. This Section will be adopted by the Company on January 1, 2008. It is not expected that the adoption of this section will have a significant effect on the financial statements of the Company.

Financial Instrument Disclosure and Presentation

The CICA issued Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Disclosure and Presentation* in December of 2006. These disclosure standards require entities to provide information that enable users to evaluate: 1) the significance of financial instruments for the entity's financial position and performance; and 2) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. These newly-issued presentation standards pertain to the classification of financial instruments between liabilities and equity, the classification of related interest, dividends, losses and gains and the circumstances in which financial assets and financial liabilities are offset. These standards will be adopted by the Company on January 1, 2008. It is not expected that the adoption of these standards will have a significant effect on the financial statements of the Company.

International Financial Reporting Standards

In January 2006 the CICA Accounting Standards Board (AcSB) adopted a strategic plan for accounting standards in Canada and under the current plan, accounting standards for public companies in Canada are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor the developments in regards to the AcSB's plan and has not yet assessed the impact of these prospective changes on the financial statements of the Company.

4. Acquisition of Sebring Energy Inc.

On July 20, 2007 the Company acquired all of the issued and outstanding shares of Sebring Energy Inc. (Sebring). Based on a negotiated purchase price of $0.50 per Sebring Share and an exchange ratio of 12.2 Sebring shares for 1.0 Cordero share, Cordero issued 2,945,135 common shares to Sebring shareholders. The transaction was accounted for using the purchase method with the results of operations being included from the date of acquisition. The table below summarizes the allocation of the purchase price to the net assets of Sebring:

Fair value of common shares issued	17,722
Transaction costs	993
Total cost of acquisition	18,715
Allocated as follows:	
Petroleum and natural gas interests	23,385
Net working capital	(753)
Asset retirement obligation	(2,658)
Future income taxes	(1,259)
Total cost of acquisition	18,715

5. Petroleum and Natural Gas Interests

At December 31, 2007	*Cost*	*Accumulated Depletion and Depreciation*	*Net Book Value*
Petroleum and natural gas interests	237,177	(49,899)	187,278
Assets under capital leases (note 7)	4,149	(716)	3,433
Other assets	2,081	(826)	1,255
	243,407	(51,441)	191,966
At December 31, 2006			
Petroleum and natural gas interests	160,052	(23,770)	136,282
Assets under capital leases (note 7)	4,149	(303)	3,846
Other assets	2,357	(142)	2,215
	166,558	(24,215)	142,343

At December 31, 2007, unproved properties of $32.7 million (2006 - $22.5 million) and other petroleum and natural gas assets of $0.8 million (2006 - $1.5 million) which consisted of drilling supplies for future exploration and development, were not subject to depletion.

The Company capitalized direct overhead expenses of $2.1 million (2006 - $1.9 million) relating to petroleum and natural gas exploration and development activities for the year ended December 31, 2007.

Cordero performed a ceiling test calculation at December 31, 2007 to assess whether petroleum and natural gas interests are impaired. The future oil and gas prices are based on January 1, 2008 benchmark prices in the futures market. These prices have been adjusted for commodity price differentials and transportation costs specific to Cordero.

The following table summarizes the benchmark prices used in the ceiling test calculation. Based on these assumptions, there was no impairment at December 31, 2007.

Year	*WTI Oil (US$/bbl)*	*Foreign Exchange Rate*	*Edmonton Light Crude Oil (Cdn$/bbl)*	*AECO Gas (Cdn$/MMbtu)*
2008	89.61	1.00	88.17	6.51
2009	86.01	1.00	84.54	7.22
2010	84.65	1.00	83.16	7.69
2011	82.77	1.00	81.26	7.70
2012	82.26	1.00	80.73	7.61
Escalate thereafter		Various Escalation Rates		

6. Credit Facility

In April 2007 the Company's revolving term credit facility was increased from $55.0 million to $70.0 million. It is provided by a Canadian chartered bank, is subject to semi-annual review and is secured by a $100.0 million first floating charge debenture over all of the Company's assets. The facility revolves and fluctuates at Cordero's option until May 30, 2008. At this time Cordero may request a renewal or the loan will convert to a 366-day term loan.

Borrowings are made by way of prime loans with interest at the bank's prime lending rate, banker's acceptances or LIBOR advances at LIBOR plus a stamping fee of 1.10%. Interest paid on the facility for the twelve months ended December 31, 2007 was $2.2 million (2006 - $0.7 million).

7. Obligations Under Capital Leases

The Company has three capital leases for compression equipment for a term of ten years. Future minimum payments under these leases are as follows:

Year	*Amount*
2008	604
2009	571
2010	537
2011	504
2012	471
2013	438
Thereafter	715
Total minimum lease payments	3,840
Less amount representing interest at 5.18% to 5.91%	673
Present value of obligations under capital leases	3,167
Due within one year	445
Long-term portion of obligations under capital leases	2,722

Interest expense incurred on the obligations under capital leases was $0.2 million (2006 - $0.2 million) for the year ended December 31, 2007. Leased assets are depreciated using the unit-of-production method (see note 2).

8. Asset Retirement Obligations

Asset retirement obligations are based on the Company's net ownership in all wells and facilities, management's estimate of costs to abandon and reclaim those wells and facilities and the potential future timing of the costs to be incurred.

Total undiscounted cash flows, escalated at 2.0%, required to settle the Company's asset retirement obligations are estimated to be $14.2 million (2006 - $11.0 million). Payments to settle these obligations will occur over the operating lives of the underlying assets, estimated to be from 2008 to 2040, with the majority of costs expected to occur between 2014 and 2019. Estimated costs have been discounted at Cordero's credit-adjusted, risk-free interest rates ranging from 7.15% to 7.50%.

For the years ended December 31	*2007*	*2006*
Asset retirement obligations, beginning of year	**4,902**	3,695
Obligations acquired in the year	**2,658**	-
Obligations incurred in the year	**1,101**	1,616
Revisions to obligations	**-**	(563)
Obligations settled in the year	**(291)**	(182)
Accretion	**454**	336
Asset retirement obligations, end of year	**8,824**	4,902

9. Share Capital

(a) *Authorized*

At December 31, 2007, the Company had authorized an unlimited number of common shares and an unlimited number of preferred shares.

(b) *Issued and Outstanding*

Common Shares	***Number***	***Consideration***
Balance, December 31, 2005	29,724,789	71,740
Equity offering June 2, 2006	2,750,000	19,938
Flow-through equity offering November 9, 2006	1,200,000	10,560
Conversion of performance shares	148,124	2
Transfer from contributed surplus	-	208
Share issue costs (net of future income tax effect)	-	(1,258)
Balance, December 31, 2006	**33,822,913**	**101,190**
Issued upon acquisition of Sebring Energy Inc.	2,945,135	17,722
Exercise of performance warrants	96,399	277
Conversion of performance shares	125,835	3
Exercise of stock options	36,334	177
Transfer from contributed surplus	-	346
Share issue costs (net of future income tax effect)	-	(15)
Future tax effect of flow-through shares renounced	-	(2,849)
Balance, December 31, 2007	**37,026,616**	**116,851**

On July 20, 2007 the Company issued 2,945,135 common shares to former Sebring shareholders based on an exchange ratio of 12.2 Sebring shares to 1.0 Cordero share (see note 4).

The resource expenditure deductions related to exploratory activities funded by flow-through shares issued in November 2006 were renounced to investors in February 2007 and the future income tax liability and share capital were adjusted accordingly at that time (see note 12).

Performance Shares	***Number***	***Consideration***
Balance, December 31, 2006	483,933	5
Converted to common shares	(241,967)	(3)
Cancelled	(53,998)	(1)
Balance, December 31, 2007	**187,968**	**1**

Each performance share was issued for a price of $0.01/share and is convertible into the percentage of a Cordero common share equal to the closing trading price on the three annual anniversary dates following April 29, 2005, of the Cordero common shares less market value of $2.87 if positive, divided by the Cordero closing share price. In May 2007, 125,835 common shares were issued upon vesting and conversion of 241,967 performance shares. In May 2008 the remaining outstanding performance shares will be automatically converted to common shares.

(c) *Contributed Surplus*

For the years ended December 31	***2007***	***2006***
Balance, beginning of year	**2,436**	1,061
Stock-based compensation expense	**1,943**	1,583
Transfer to share capital	**(346)**	(208)
Balance, end of year	**4,033**	2,436

10. Stock-Based Compensation Plans

(a) *Stock Option Plan*

The Company has established a stock option plan whereby officers, directors and employees may be granted options to purchase common shares at a fixed price not less than the volume-weighted five-day average preceding the grant. Vesting and expiry provisions vary and are determined at the date of grant. The aggregate number of common shares and any other security-based share compensation of Cordero reserved for issuance under the performance share and stock option plans is fixed at a rolling maximum of 10% of the issued and outstanding common shares calculated on a non-diluted basis.

The following table summarizes information regarding the Company's stock option activity:

For the years ended December 31	*2007*		*2006*	
	Number of Options	*Weighted Average Exercise Price ($)*	*Number of Options*	*Weighted Average Exercise Price ($)*
Outstanding at beginning of year	1,733,800	5.31	1,105,800	4.69
Granted	1,739,500	4.87	628,000	6.40
Exercised	(36,334)	4.88	-	-
Cancelled	(567,066)	5.20	-	-
Outstanding at end of year	2,869,900	5.07	1,733,800	5.31

The following table summarizes information about the Company's stock options outstanding and exercisable at December 31, 2007:

Exercise Price ($)	*Options Outstanding*	*Weighted Average Exercise Price ($)*	*Remaining Contractual Life (Years)*	*Options Exercisable*	*Weighted Average Exercise Price ($)*	*Remaining Contractual Life (Years)*
3.35 - 4.00	176,000	3.44	4.81	-	-	-
4.01 - 5.00	872,000	4.47	2.86	524,671	4.57	2.40
5.01 - 6.00	1,306,400	5.15	4.05	101,101	5.58	2.71
6.01 - 7.00	416,000	6.18	3.38	115,337	6.12	3.11
7.01 - 7.40	99,500	7.40	3.35	45,170	7.40	3.35
3.35 - 7.40	2,869,900	5.07	3.32	786,279	5.09	2.60

(b) *Performance Warrants*

The following table summarizes information regarding the Company's performance warrant activity during the year ended December 31, 2007.

Performance Warrants	*Number*
Balance, beginning of year	1,916,376
Exercised	(96,399)
Cancelled	(33,683)
Balance, end of year	1,786,294

At December 31, 2007 1,181,185 of the outstanding performance warrants were exercisable.

(c) *Deferred Stock Unit Plan*

During the second quarter of 2007 the Company approved a deferred stock unit plan, effective April 1, 2007, whereby directors may elect to receive stock units in lieu of the portion of compensation to which they would otherwise be entitled. The amount of units received will be calculated by dividing the amount of compensation by the closing price on the applicable quarterly valuation date, which is the second trading day following the day on which the Company issues a news release in respect of its financial results for a calendar quarter. The estimated liability is revalued quarterly based on the closing share price on the last day of the period. As at December 31, 2007 there were 48,613 units outstanding and for the year ended December 31, 2007 the Company recorded $0.2 million, included in administrative expenses. The units are convertible to cash upon change of control or termination of the directors' services.

(d) *Stock-Based Compensation*

The fair value of each stock option, performance warrant and performance share granted is estimated on the date of grant using the Black-Scholes option pricing model. Weighted average assumptions and resulting fair value for stock options granted during the years ended December 31, 2007 and 2006 are as follows:

For the years ended December 31	*2007*	*2006*
Risk-free interest rate (%)	**4.04**	4.02
Expected life (years)	**3.2**	3.5
Expected volatility (%)	**40**	40
Dividend yield (%)	**-**	-
Weighted average fair value ($)	**1.58**	2.06

The aggregate fair value of the stock options, performance warrants and performance shares is expensed over the respective vesting periods, with a corresponding increase to contributed surplus.

11. Net Earnings per Share

The following reconciles the number of shares used in the basic and diluted net earnings per share calculations:

For the years ended December 31	*2007*	*2006*
Weighted average basic	**35,302,654**	31,602,850
Dilutive securities:		
Stock options	**188,135**	557,956
Performance warrants	**739,746**	1,197,761
Performance shares	**88,051**	408,140
Weighted average diluted	**36,318,586**	33,766,707

12. Income Taxes

The future income tax provision reflects an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

For the years ended December 31	*2007*	*2006*
Earnings before income taxes	**5,843**	8,568
Expected income taxes at the statutory rate	**1,877**	2,955
Increase (decrease) resulting from:		
Non-deductible Crown charges	**-**	499
Resource allowance	**-**	(710)
Stock-based compensation & other non-deductible amounts	**651**	585
Federal Tax	**71**	(60)
Income tax rate reduction	**332**	595
Other	**49**	29
Income taxes	**2,980**	3,893

The future income tax asset is comprised of the tax effect of temporary differences as follows:

As at December 31	*2007*	*2006*
Petroleum and natural gas interests	**(4,089)**	4,825
Asset retirement obligations	**2,212**	1,430
Non-capital losses	**1,462**	-
Share issue costs	**603**	791
Other	**(123)**	29
	65	7,075

Pursuant to the flow-through share issuance completed in November 2006 the Company was committed to renounce $10.6 million of exploration costs to investors by December 2007. At December 31, 2007 the entire flow-through obligation had been fulfilled. The Company recorded $71,000 of current tax expense for the year ended December 31, 2007 which represents the amount paid to Canada Revenue Agency for expenditures renounced in 2007 under the look-back rule (part 12.6 tax).

13. Supplementary Information for Statements of Cash Flows

For the years ended December 31	*2007*	*2006*
Accounts receivable	**1,121**	205
Accounts payable and accrued liabilities	**(6,614)**	(4,039)
Change in non-cash working capital relating to:	**(5,493)**	(3,834)
Operating activities	**321**	(206)
Investing activities	**(5,814)**	(3,628)

14. Financial Instruments

Fair Value of Financial Instruments

The carrying values and fair values of the Company's financial assets and liabilities as at December 31, 2007, are as follows:

Classification	*Carrying Value ($000s)*	*Fair Value ($000s)*
Held-for-trading	-	-
Loans and receivables (accounts receivable)	7,473	7,473
Held-to-maturity	-	-
Available-for-sale (natural gas derivative contracts)	553	553
Other liabilities (accounts payable and credit facility)	(55,117)	(55,117)
Total	(47,091)	(47,091)

The classification of the Company's financial instruments has not changed from inception to December 31, 2007.

Credit Risk

A substantial portion of the Company's accounts receivable are with customers in the energy industry and are subject to normal industry credit risk. The Company generally grants unsecured credit but to mitigate the risk of non-payment, routinely assesses the financial strength of its customers.

Foreign Currency Exchange Risk

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices are referenced to U.S. dollar denominated prices.

Interest Rate Risk

The Company is exposed to interest rate cash flow risk to the extent that bank debt is at a floating rate of interest. The Company is also exposed to interest rate risk on its fixed interest rate obligations under capital leases.

Commodity Price Contracts

The Company has a risk management program for the objective of maintaining financial flexibility and a strong balance sheet to ensure adequate funds are available for planned capital activities and other commitments. To manage its exposure to fluctuations in natural gas prices the Company may enter into commodity pricing contracts. At December 31, 2007 two derivative contracts with third parties were outstanding.

The fair value of the contracts are recognized on the balance sheet with changes in fair value recorded in earnings. As at December 31, 2007 the fair value of the Company's derivative contracts was $0.5 million. A summary of these contracts is as follows:

Contract Type	*Volume (GJ/d)*	*Pricing Point*	*Price ($/GJ)*	*Term*
Fixed price	3,000	AECO	7.51	Nov 07-Mar 08
Fixed price	2,000	AECO	7.52	Nov 07-Mar 08

15. Commitments

The Company is committed to future minimum payments for natural gas transportation contracts and office space. Payments required under these commitments for each of the next five years are as follows:

	Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*
Office space (operating leases)	334	29	-	-	-
Transportation	1,675	1,317	338	90	90
Total commitments	2,009	1,346	338	90	90

The Company is committed to the sale of natural gas production associated with fixed price contracts entered into subsequent to December 31, 2007. A summary of these contracts is as follows:

Contract Type	*Volume (GJ/d)*	*Pricing Point*	*Price ($/GJ)*	*Term*
Fixed price	4,000	AECO	6.65	Apr 08-Oct 08
Fixed price	2,000	AECO	6.80	Apr 08-Oct 08

16. Subsequent Event

On February 19, 2008 the Company entered into an agreement pursuant to which ENMAX Corporation will make an all-cash offer (the Offer) to acquire all of the issued and outstanding common shares of Cordero. The Offer is subject to certain customary conditions including acceptance of the Offer by holders of at least 66 ⅔% of the outstanding Cordero Shares and receipt of all required regulatory approvals. The anticipated closing of the transaction is mid-April 2008.

APPENDIX C

Form 51-101F3 *Report of Management and Directors on Reserves Data and Other Information*

Management of Cordero Energy Inc. (the "Company") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2007, estimated using forecast prices and costs.

Sproule Associates Limited has evaluated the Company's reserves data. The report of the independent, qualified reserves evaluators will be filed with securities regulatory authorities concurrently with this report.

The Technical Review Committee of the Board of Directors of the Company has:

a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;

b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and

c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Technical Review Committee of the Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Technical Review Committee, approved

a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;

b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and

c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

"signed" DAVID ELGIE
President and Chief Executive Officer

"signed" NEIL WILSON
Vice President Engineering

"signed" BRIAN LEMKE
Chairman of the Board of Directors

"signed" JEFFREY SMITH
Chairman of Technical Review Committee

APPENDIX D

Form 51-101F2 *Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor*

To the Board of Directors of Cordero Energy Inc. (the "Company"):

1. We have evaluated the Company's Reserves Data as at December 31, 2007. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2007 using forecast prices and costs.

2. The Reserves Data are the responsibility of the Company's management. Our responsibility is to express an opinion on the Reserves Data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue attributed to proved plus probable reserves, estimated using forecast prices and costs on a before tax basis and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us as of December 31, 2007, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's management and Board of Directors.

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate)			
			Audited ($M)	Evaluated ($M)	Reviewed ($M)	Total ($M)
Sproule Associates Limited	Evaluation of the P&NG reserves of Cordero Energy Inc., as of December 31, 2007, prepared November 2007 to January 2008	Canada	Nil	236,177	Nil	236,177

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

Sproule Associates Limited
Calgary, Alberta
February 8, 2008

Original signed by L. Precul
Lucia M. Precul, P. Eng.
Associate

Original signed by A. Kovaltchouk
Alec Kovaltchouk, P. Geol.
Associate

Original signed by Keith MacLeod
R. Keith MacLeod, P. Eng.
President

APPENDIX E

Audit and Finance Committee Information

Audit and Finance Committee Terms of Reference

Policy Statement

It is the policy of Cordero Energy Inc. (the "Corporation") to establish and maintain an Audit and Finance Committee, composed entirely of independent directors, to assist the Board of Directors (the "Board") in carrying out their oversight responsibility for the Corporation's internal controls, financial reporting and risk management processes. The Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including administrative support. If determined necessary by the Committee, it will have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or experts.

Composition

1. The Committee shall consist of at least three directors. The Board shall appoint the members of the Committee. The Board shall appoint one member of the Committee to be the Chair of the Committee.

2. Each director appointed to the Committee by the Board shall be an outside director who is unrelated and "independent" as required under the applicable securities laws and the applicable rules of any stock exchange on which the securities of the Corporation are listed. An outside, unrelated director is a director who is independent of management and is free from any interest, any business or other relationship which could, or could reasonably be perceived, to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. In determining whether a director is independent of management, the Board shall make reference to the then current legislation, rules, policies and instruments of applicable regulatory authorities, including without limitation Multilateral Instrument 52-110 (Audit Committees).

3. Each member of the Committee shall be "financially literate" as required under the applicable securities laws, including without limitation Multilateral Instrument 52-110 (Audit Committees). In order to be financially literate, a director must have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements. If available, at least one member shall have "accounting or related financial management expertise", meaning the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian generally accepted accounting principles.

4. A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

Meetings

1. The Committee shall convene a minimum of four times each year at such times and places as may be designated by the Chair of the Committee and whenever a meeting is requested by the Board, a member of the Committee, the auditors, or a senior officer of the Corporation. Meetings of the Committee shall correspond with the review of the quarterly and annual financial statements and Management's Discussion and Analysis.

2. Notice of each meeting of the Committee shall be given to each member of the Committee and to the auditors, who shall be entitled to attend each meeting of the Committee and shall attend whenever requested to do so by a member of the Committee.

3. A quorum for the transaction of business at a meeting of the Committee shall consist of two members of the Committee.

4. A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.

5. In the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to be Chair of the meeting. In addition, the members of the Committee shall choose one of the persons present to be the Secretary of the meeting.

6. Each of the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer shall be invited to attend all meetings of the Committee and the Chairman of the Board, senior management of the Corporation and other parties may attend meetings of the Committee upon the request of the Committee; subject, however, to the requirement that the Committee (i) hold regular in camera sessions of the members of the Committee, without management representatives present and (ii) meet with the external auditors independent of management at each meeting at which the external auditors are in attendance.

7. Minutes shall be kept of all meetings of the Committee.

Responsibilities

1. The Committee's primary duties and responsibilities are to:

   (a) review with management and the external auditors, and recommend to the Board for approval and release to shareholders, the financial statements of the Corporation, together with related reports to shareholders, Management Discussion and Analysis ("MD&A") of such financial statements and, when applicable, other public filings (such as prospectuses or annual information forms) containing financial disclosures;

   (b) review with the auditors and management, and monitor the management of, the principal risks that could impact the financial reporting of the Corporation;

   (c) review the framework of and periodically monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance, including confirmation that the Corporation and its officers have complied with regulations regarding certification and disclosure of such controls;

   (d) monitor the independence and performance of the Corporation's external auditors;

   (e) deal directly with the external auditors to approve external audit plans, other services (if any) and fees;

   (f) approve the audit engagement and monitor the external audit process and results;

   (g) provide an avenue of communication among the external auditors, management and the Board;

   (h) review the implementation of and monitor an effective "whistle blowing" procedure to permit stakeholders to express any concerns regarding accounting or financial matters to an appropriately independent individual;

   (i) review the minutes of any Committee meetings of any subsidiary companies.

2. The Committee shall have the authority to:

   (a) inspect any and all of the books and records of the Corporation, its subsidiaries and affiliates;

   (b) discuss with the management of the Corporation, its subsidiaries and affiliates and staff of the Corporation, any affected party, contractors and consultants of the Corporation and the external auditors, such accounts, records and other matters as any member of the Committee considers necessary and appropriate;

   (c) engage independent counsel and other advisors as it determines necessary to carry out its duties; and

   (d) to set and pay the compensation for any advisors employed by the Committee.

3. The Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.

4. The Committee shall:

   (a) review the audit plan with the Corporation's external auditors and with management and approve the engagement letter;

   (b) discuss with management and the external auditors any proposed changes in major accounting policies or principles, the presentation and impact of significant risks and uncertainties and key estimates and judgments of management that may be material to financial reporting;

(c) review with management and with the external auditors significant financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues;

(d) review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management and assist in the resolution of any disagreements;

(e) review with senior management the process of identifying, monitoring and reporting the principal risks affecting financial reporting;

(f) review and evaluate any recommendations of the auditors and decide the appropriate course of action;

(g) review consistency of data reported on the financial statements, annual and quarterly reports and related public disclosure documents;

(h) review audited annual financial statements and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all significant variances between comparative reporting periods;

(i) consider and review with management:

  (i) all unadjusted errors identified by the external auditors,

  (ii) the internal control memorandum or management letter containing the recommendations of the external auditors and management's response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weaknesses;

(j) review with financial management and the external auditors the quarterly unaudited financial statements and MD&A before release to the public;

(k) before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including any prospectuses, annual reports, annual information forms, MD&A and press releases; and

(l) review and approve the Corporation's hiring policies regarding partners, employees and former employees of the present and former external auditors.

5. The Committee shall:

(a) evaluate the independence and performance of the external auditors and annually recommend to the Board the appointment of the external auditor or the discharge of the external auditor when circumstances are warranted and to recommend to the Board the compensation of the external auditors;

(b) pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by its external auditors', or the external auditors of the Corporation's subsidiary entities;

(c) when there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditors and documentation required pursuant to National Instrument 51-102 (or any successor legislation) of the Canadian Securities Administrators and the planned steps for an orderly transition period; and

(d) review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors.

6. The Committee shall:

   (a) review all securities offering documents (including documents incorporated therein by reference) of the Corporation;

   (b) review findings, if any, from examinations performed by regulatory agencies with respect to financial matters; and

   (c) review Managements procedure for monitoring the Corporation's compliance with laws and regulations.

   (d) review current and expected future compliance with covenants under the financing agreements.

   (e) if requested by the Board, review the proposed issuance of debt and equity instruments including public and private debt, equity and hybrid securities, credit facilities with banks and others, and other credit arrangements such as material capital and operating leases. When applicable, the Committee shall review the related securities filings.

   (f) if requested by the Board, review the proposed repurchase of public and private debt, equity and hybrid securities.

   (g) understand the Corporation's capital structure and financial risks arising from exposure to such things as commodity prices, interest rates, foreign currency exchange rates and credit. Review the management of these risks including any proposed hedging of the exposures. The Committee shall receive a summary report of the hedging activities including a summary of the hedge-related instruments.

7. The Committee shall review the amount and terms of any insurance to be obtained or maintained by the Corporation with respect to risks inherent in its operations and potential liabilities incurred by the directors or officers in the discharge of their duties and responsibilities.

8. The Committee shall review the appointments of the Chief Financial Officer and any key financial managers who are involved in the financial reporting process.

9. The Committee shall enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters, which are directed to the Committee by any member of the Board, a shareholder of the Corporation, the external auditors, or senior management.

10. The Committee shall review, on an annual basis, its terms of reference.

11. The Committee will perform any other activities consistent with this mandate, the Company's bylaws and governing laws as the Committee or the Board deems necessary or appropriate.

12. While the Committee has the responsibilities, duties and authorities herein, it is not required to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate or are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the external auditors. The Committee, its Chair and any of its members who have accounting or related financial management experience or expertise, are members of the Board, appointed to the Committee to provide broad oversight of the financial disclosure, financial risk and control related activities of the Corporation, and are specifically not accountable nor responsible for the day to day operation of such activities. Although designation of a member or members as being "financially literate" or a "Committee financial expert" is based on each such individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, designation as being "financially literate" or a "Committee financial expert" does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of any financially literate individual or Committee financial expert, like the role of all Committee members, is to oversee the process and not to certify or guarantee the internal or external audit of the Corporation's financial information or public disclosure.

13. Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Corporation from which it receives information, (ii) the accuracy of the information provided to the Committee by such persons or organizations, and (iii) representations made by management of the Corporation, the external auditors of the Corporation, independent counsel, and other advisors and experts to the Corporation and its subsidiaries.

Audit and Finance Committee Members

The Audit Committee consists of four members, Donald P. Driscoll, Douglas G. Manner, Robert R. Rooney and Jeffrey T. Smith. All of the members of the Audit Committee are independent. None of the members is, or has ever been, an employee or executive officer of the Corporation and none has a material relationship with the Corporation.

The Board has carefully considered and concluded that all members of the Audit Committee are financially literate, which means that each of them has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements. The education and experience of each member of the Audit Committee relevant to their responsibilities as an Audit Committee member is described below.

Donald P. Driscoll holds a Bachelor of Science Degree and an MBA. His education, together with experience derived from his position as President and Chief Executive Officer of NAL Oil & Gas Trust for almost a decade provide him with experience in analyzing and evaluating financial statements. He has gained an understanding of internal controls, procedures for financial reporting and an understanding of Audit Committee functions. Mr. Driscoll has completed the financial literacy course with the Haskayne School of Business.

Douglas G. Manner has been involved in the financial reporting process as an executive officer and a member of the audit committee for numerous reporting issuers. His business career has provided him with extensive experience in analyzing and evaluating financial statements and he has gained an understanding of internal controls and procedures for financial reporting and an understanding of Audit Committee functions.

Robert R. Rooney has been involved in the financial reporting process as a member of the audit committee for numerous public and private companies. He has significant experience in analyzing and reviewing financial statements, internal controls and audit committee functions.

Jeffrey T. Smith has completed the financial literacy course with the Haskayne School of Business and currently sits on the Audit Committee of another reporting issuer, in addition to his role on the Audit Committee of the Corporation.

Pre-Approval Policies and Procedures

Cordero has adopted policies and procedures with respect to the pre-approval of audit and permitted non-audit services to be provided by Deloitte and Touche LLP. The Audit and Finance Committee of the Board of Directors has established a budget for the provision of a specified list of audit and permitted non-audit services that the Audit Committee believes to be typical, recurring or otherwise likely to be provided by Deloitte & Touche LLP. Engagements aggregating up to $25,000 during the year that are not within this pre-approved limit must be pre-approved by the Audit and Finance Committee.

External Auditor Service Fees

The following table provides information about the fees billed to the Corporation for professional services rendered by Deloitte & Touche LLP for the years ended December 31, 2007 and December 31, 2006:

Service	2007 ($)	2006 ($)
Audit Fees	77,910	88,510
Audit-related fees	33,390	30,210
Tax fees	6,782	1,980
All other fees(1)	36,845	24,610(2)
Total billed in period	154,927	145,310

(1) 2007 amount primarily comprised of fees for corporate acquisition and 2006 amount primarily comprised of fees for equity issuances.
(2) Fees for November equity issuance not billed in 2006 – included in 2007.